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**U.S. Department of Housing and Urban Development  
Office of Inspector General**

**Semiannual Report to the Congress**

For the Period Ending September 30, 1994

32nd Report to the Congress

As Required by Public Law 95-452

## *OIG Mission Statement and Values*

*The OIG's mission is independent and objective reporting to the Secretary and the Congress for the purpose of bringing about positive change in the integrity, efficiency, and effectiveness of HUD operations.*

*OIG values are as follows:*

- Relationships among OIG components and staff are characterized by teamwork and respect.*
- Diversity is valued and promoted in the workforce.*
- Excellence in the workforce is fostered through continuing concern for professionalism and career development.*
- As a general rule, emphasis is placed on "doing" rather than reviewing, by delegating operational authority, responsibility, and accountability to the lowest appropriate level.*
- Identifying and meeting client needs in a timely fashion is a primary concern. Clients are defined as the Secretary, the Congress, HUD managers and employees, and the public.*
- OIG operations are focused on substance rather than process and rely on innovative as well as traditional methods to address issues of significance having potential payback in terms of improved integrity, effectiveness, and efficiency.*

# INSPECTOR GENERAL'S MESSAGE

The objectives of this report are to: focus on key management and program problems that require action by HUD, OMB, and the Congress; and provide an overview of Office of Inspector General (OIG) activities during the semiannual reporting period.

Chapters 1 and 3 present key management and program problems affecting HUD operations.

- In Chapter 1, we conclude that HUD is not moving fast enough to correct its systemic management weaknesses in the areas of management control environment, resource management, and data systems. The OIG believes that correction of these weaknesses is necessary if HUD is to achieve substantial improvement in its program delivery and results.
- In Chapter 3, we define major risks associated with four of HUD's program areas: project-based assisted multifamily housing, multifamily preservation, public housing, and lead-based paint testing and hazard abatement. In each case, we recommend actions by HUD, OMB, and/or the Congress to mitigate the risks.

Chapters 2 and 4 present an overview of OIG activities this reporting period.

- Chapter 2 is a progress report on Operation Safe Home, the OIG-led campaign to combat violent crime in public and assisted housing, fraud in the administration of public housing programs, and equity skimming in FHA insured multifamily programs. Obviously, in the 8 months since the announcement of Operation Safe Home, these abuses have not been stopped. But the progress made toward that goal reflects an extraordinary level of responsiveness, commitment, and concern on the part of OIG staff and Federal, State, and local law enforcement agencies.
- Chapter 4, in summarizing other significant OIG audit and investigative results this period, provides assurance that broad OIG coverage of HUD programs and activities continues to identify significant opportunities for strengthening program integrity, efficiency, and effectiveness.

This report's straightforward treatment of problem areas needing attention reflects the HUD OIG's commitment to being an agent of change. As part of that commitment, the OIG stands ready to assist HUD and the Congress in the process of bringing about change.

Susan Gaffney  
Inspector General

## Reporting Requirements

The specific reporting requirements as prescribed by the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, are listed below.

<i>Source/Requirement</i>	<u>Page</u>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	Pages 15-34
Section 5(a)(1)-description of significant problems, abuses and deficiencies relating to the administration of programs and operations of the Department.	Pages 1-34
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses and deficiencies.	Pages 15-34
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed.	Appendix 2, Table B
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	Pages 7-34
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No instances
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 1
Section 5(a)(7)-summary of each particularly significant report.	Pages 15-34
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 2, Table D
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 2, Table A
Section 5(a)(11)-description and explanation of the reasons for any significant revised management decision made during the reporting period.	None
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	None

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## Chapter 1

# Systemic Management Problems



Three systemic management problems continue to adversely impact HUD's program performance — *management control environment, resource management, and data systems*. Unless and until there is significant improvement in these three critical areas, there can be no substantial improvement in HUD's program delivery and results.

In our Semiannual Report as of March 31, 1994, the OIG commended the HUD management team on their grasp of the problems in these three areas and on their willingness to tackle the tough root causes of the problems. At that point, plans had been formulated for:

- strategic management planning and reporting systems;
- streamlined operations and program structure;
- work and performance measurements and resource management tools; and
- improved staff development and automated data systems.

While these planning efforts laid the proper groundwork, little has been accomplished to date in terms of actually correcting the problems. Some delay may reasonably be attributed to the magnitude and complexity of the problems. However, the absence of strong leadership and consistent follow-through has also been a factor.

The OIG's assessment of HUD's progress on its systemic problems is summarized in the following chart and discussed in greater detail in the following sections.

### Systemic Problems Progress Report

	No Action	General Strategy	Detailed Plans	Implementation	Notable Improvement	Objective Met
Mgmt. Control Environment						
Resource Management						
Data Systems						

## Management Control Environment

In our March 31, 1994 Semiannual Report to the Congress, the OIG was optimistic about management's plans to improve its basic management control structure, but cautioned HUD *...to stay the course and devote increasing attention to melding the individual management improvement efforts into a coherent, institutionalized framework*. That caution is as relevant today as it was 6 months ago. HUD has a continuing need for departmentwide leadership that will transcend the parochial interests of program components and make the difficult policy, budget, and resource allocation decisions. HUD also needs reliable and accurate information on which to base decisions and to form the framework for ensuring accountability.

HUD's Strategic Performance System, the primary vehicle for integrating major management elements, has yet to meet its objectives. The system was intended to improve coordination of program policy, budgetary, and operational activities; provide clear and comprehensive priorities and actions; establish a basis for monitoring

progress and measuring performance; and ensure accountability.

The two key components of the Strategic Performance System are the *Secretary's Performance Report* and the *Management Committee*. The initial June 10, 1994 Performance Report pulled from the Presidential Performance Agreement, the First Year Priorities, and operating component Management Plans in establishing priorities, commitments and milestones. However, that Performance Report has not been updated since it was first compiled. Progress against HUD's major management initiatives needs to be closely tracked on a more frequent basis. The OIG has been advised that efforts are underway to provide automated updates and access to the report.

The Management Committee, comprised of the Deputy Secretary and principal staff, first met on March 16, 1994. Although the Committee has provided a needed forum to focus on crosscutting departmental concerns and management improvements, the OIG has found the Committee activities to be fragmented, largely process oriented, and generally reactive in nature. The Committee did not monitor and ensure progress against performance milestones. The agenda was largely member driven and the members had their own parochial interests. In many instances, key management decisions were made outside the Committee, or without the benefit of the Committee's advance discussion. Finally, the Committee did not effectively coordinate the budgetary, legislative and operational planning processes to ensure consistency. The Committee needs to focus on ensuring the effective functioning of the Strategic Performance System to improve overall management of HUD.

The OIG has observed specific program management actions that have delayed progress in reforming HUD. For example:

- Certain initiated improvement actions — such as the Single Family Assignment Program Business Process Redesign Project, the Community Planning and Development Program Streamlining Task Force effort, and the Multifamily Housing Program Enforcement Task Force — were deferred or redirected, delaying needed improvements in resource utilization and program delivery.
- Certain claimed strategies or plans — such as the Federal Housing Administration (FHA) Mortgage Insurance and Multifamily National Systems Projects — were reconsidered because they lacked sufficient detail or buy-in to proceed.
- Proposals were developed for a dozen new HUD programs with little regard for the impact on HUD's capacity to improve its core program delivery.

Once a viable course of action is chosen, it must be effectively implemented. In doing so, it is essential that organizational and programmatic changes are reflected in written policies and procedures supporting and guiding internal operations and outside program participation. In revising the underlying management control structure of its programs, management needs to consider relative program risks and available resources, and devise a balanced approach to management control. While HUD management has advanced this concept, it has yet to be put in actual practice.



## Resource Management

HUD efforts to better utilize existing staff resources have not progressed as planned. HUD's goal is to reorganize and improve program delivery by giving Assistant Secretaries direct control over field resources; eliminating unproductive layers of oversight and support functions; and empowering staff to directly improve customer service and program performance. The planned implementation date for the field reorganization was September 30, 1994. However, as of that date, many key field management positions had not been filled, the union had yet to approve reorganization plans for major HUD program areas, staffing and workload allocation plans had not been completed, and staff training and development needs had not been met. In addition, although field offices were delegated many program and administrative authorities in April 1994, a state of inertia appears to have set in pending completion of the reorganization.

This summer, the Deputy Secretary held a series of workshops with field managers and union representatives to clarify the nature and status of the field reorganization. In a September 21, 1994 report to the Secretary, the Deputy Secretary advised that:

*A nearly unanimous theme during the workshops was field skepticism that headquarters as a whole is ready or willing to change its behavior in ways that respect and empower the field.... Field managers believe that headquarters managers and staff, with whom they deal daily, do not understand the reorganization.... They experience headquarters working directly with program clients without involving or informing the field office, not responding in reasonable timeframes to questions that impact field operations, hiding behind voicemail, second-guessing, and retracting program authorities.*

Some program actions appear contrary to the stated reorganization goal of empowering the field. This is largely attributed to perceived limitations in the requisite field staff knowledge and skills to handle some major program problems. For example, Public and Indian Housing (PIH) originally intended to implement a new risk-based monitoring approach that targeted field resources at the most troubled public housing agencies (PHAs) to find local solutions to problems. However, a headquarters organization has been created to deal with the most severely distressed troubled PHAs, and funding for those PHAs is handled from headquarters. Now, additional actions are underway to move responsibility for other troubled PHAs to headquarters. The OIG is advised that PIH plans to continue to involve and thereby further develop field office resources in addressing conditions at larger troubled PHAs. In a similar situation, the Office of Multifamily Housing is coordinating a troubled project swat team effort from headquarters, with a strategy for developing greater field staff capacity in the process.

The Office of Administration has developed various analytical tools to assist program management in identifying streamlining opportunities and making decisions on the redeployment of HUD staff. In addition, distance learning capability has been established to provide more cost effective staff training and communication. However, these tools have yet to be substantively used by program managers. Further, there is still a need to develop more useful and reliable information systems for basic time distribution and work measurement, and to engrain their use in departmental management. Thus, departmentwide staffing allocations continue to be made without the benefit of basic data or a systematic methodology.

It is critical that HUD:

- complete the field reorganization and streamline and reorganize headquarters operations to support field operations and free resources for effective program delivery;





- complete systems to provide management information on workload and resource capacity, utilization and cost;
- ensure existing staff resources have the requisite knowledge and skills to perform critical program functions; and
- establish interim resource utilization strategies while pursuing longer term program and resource management improvement strategies.

While it is widely accepted that HUD has insufficient resources to effectively administer its programs as currently structured, it is also clear that available resources could be better utilized.

## Data Systems

While HUD has made some progress in the data systems area, the major business areas still lack adequate automated data systems support.

On the positive side, HUD has focused on improving the systems development budget allocation and project planning and management processes. Control over specific systems and systems development has been placed with program heads. In addition, financial systems funding is withheld from projects unless an Information Strategy Planning (ISP) process has been completed. Also, it is encouraging that HUD recently met many of its milestones on certain active development projects, such as the administrative accounting system and PIH's Section 8 systems project. However, this same type of commitment is needed to make real progress in planning and fulfilling HUD's many other program accounting and business system applications needs. Systems budget support is also needed from OMB and the Congress.

The OIG commends HUD's recent efforts to model the best information management practices from private industry, as assessed by the General Accounting Office. In particular, the attempt to manage information systems projects as investments is a step in the right direction. A Technology Investment Board (TIB) was created to recommend resource allocations for future technology investments in information systems. However, the Board's attempt to develop recommendations for FY 95 was flawed because individual program officials naturally represented and fought for their own needs, and there was a lack of consistent, substantive input for decision making. Stronger leadership by the Chairperson of the TIB is needed to guide the TIB in establishing and adhering to a more rigorous methodology for resource allocation, with a focus centered on the Department as whole, rather than individual program areas.

Stronger TIB leadership is also needed to focus senior management on the strategic use of information, to bridge the differing perspectives of top management, line users, and the Office of Information Policies and Systems (IPS). Problems in defining information needs have been evidenced in HUD's major systems integration projects, as depicted in the following progress chart and discussion below:



### Systems Project Progress Report

	No Action	Business Strategy Stage	Information System Plan Stage	System Development	Pilot Testing/ Limited Use	Operational
Housing CFS/TRACS						
Housing FHAMIS						
Housing MF System						
PIH HUDCAPS						
PIH IBS						
CPD IDIS						
Agency Accounting						
Administrative Accounting						

- The Control Files Subsystem/Tenant Rental Assistance Certification System (CFS/TRACS), initiated in response to Congressional concerns over HUD's inability to budget and account for Section 8 subsidy programs, is HUD's largest systems development effort. CFS/TRACS has been under development for over 4 years and progress is slow. However, project management has been improved.
- The FHA Management Information System (FHAMIS) is progressing very slowly. The project lacks a definitive plan for improving business applications and integrating information to better support Office of Housing program delivery and management. Current efforts are directed at migrating existing systems to a common systems architecture to make future improvements easier to accomplish. Some new functionalities, such as Electronic Data Interchange to automate Single Family Mortgage Insurance Claims, are being implemented. Efforts are underway to strengthen project management and program office responsibility for planning each of the major program systems components of FHAMIS.
- The Office of Housing's integrated Multifamily Housing program system, a major component of FHAMIS, is not progressing satisfactorily. Delays occurred because of insufficient initial business and information strategic planning. A lack of strong project management was also a factor.
- The Office of Public and Indian Housing (PIH) is using the same software as the administrative accounting system to develop the HUD Central Accounting Program System (HUDCAPS) to support its tenant-based Section 8 subsidy activity. While HUDCAPS has satisfactorily met its October 1994 pilot test phase, the other major PIH systems development effort, the Integrated Business System (IBS), is still in the business strategy stage. Progress for IBS will be slowed because of a severe budget reduction in FY 95. IBS and HUDCAPS must be closely coordinated in order to avoid duplication and inefficiency since the systems will eventually merge. Whenever possible, IBS should rely on the functions already developed under HUDCAPS.



- The Office of Community Planning and Development is developing the Integrated Disbursement and Information System (IDIS) to support its major programs. However, CPD's plans do not include options based on funding and staffing levels. Over the years, funding for CPD systems has not been level. Also, the milestones for task completion were not based on an evaluation of resource availability.
- The agency and administrative accounting projects have been combined into one overall accounting project and the software to support the accounting functions has been successfully installed on the HUD standard computer system. However, much work remains. The administrative accounting component is operational, but existing program accounting systems, representing the bulk of the accounting operations, need to be converted.

HUD continues to face funding shortfalls for data systems infrastructure. Supporting HUD's current and planned automated systems is a vast array of mainframe computers, PC computers, telecommunication networks, and technical support functions. Sufficient hardware and software support is required to insure that HUD's systems are able to perform their desired tasks. HUD allocated almost \$145 million for systems operations and information technology for FY 1995. While this included \$11 million to upgrade workstations and LANs to support new integrated financial management systems, over \$27 million of identified strategic investments in equipment and system support improvements could not be funded.

HUD needs to plan software maintenance based on current and projected resource requirements. The Department has neither defined the activities that constitute software maintenance, nor established an adequate system to track maintenance costs. Thus, scarce resources cannot be allocated on a firm, defensible basis.

The need remains for a strong focal point, with a broad perspective and sufficient technical expertise to make and enforce decisions on systems needs departmentwide. There is also a need to hold program management and technical support accountable for satisfactorily completing systems development projects.



## Chapter 2



# Operation Safe Home

Operation Safe Home is a campaign to combat violent crime in public and assisted housing, fraud in the administration of public housing programs, and equity skimming in FHA insured multifamily housing. These three types of wrongdoing represent particularly high risks to HUD's programs and to the well-being of residents in public and assisted housing.

In each of the areas, the overarching Operation Safe Home strategy is to foster aggressive enforcement action and, in the process, deter further wrongdoing. Operation Safe Home has entailed significant variations from the traditional OIG audit and investigative programs:

- The Operation Safe Home approach is targeted and proactive, rather than reactive.
- Operation Safe Home focuses OIG attention on violent crime, an area previously outside the OIG's ambit.
- Operation Safe Home involves an unprecedented level of OIG collaboration with federal, state, and local law enforcement agencies, as well as with HUD program staff, partners, and beneficiaries.
- Operation Safe Home employs new methodologies, such as probes (as distinguished from audits and investigations) and direct audit and/or investigative referral of civil cases to the Department of Justice (DOJ) and the U.S. Attorneys, rather than reliance on HUD to make these referrals.

Announced by the Vice-President on February 4, 1994, Operation Safe Home was 8 months old at the end of this semiannual reporting period. Obviously, in this short period, the targeted abuses have not been stopped; and the OIG is still in the process of developing the needed working relationships and fine-tuning our Operation Safe Home methodologies. However, as detailed below, we have come a considerable distance.

## Combatting Violent Crime in Public and Assisted Housing

The Operation Safe Home strategy entails:

- collaboration by the OIG and federal, state, and local law enforcement agencies in law enforcement efforts targeted at public and assisted housing;
- collaboration among the OIG, law enforcement agencies, public/assisted housing managers, and public/assisted housing residents in devising methods to prevent violent crime; and
- HUD programmatic initiatives specifically geared to preventing violent crime.

Since the onset of Operation Safe Home, OIG agents have been assigned to 76 law enforcement task forces working in public and assisted housing. Operation Safe Home was a catalyst for formation of 46 of these task



forces. As of September 30, 1994, task force operations had resulted in 1,013 arrests for crimes involving drugs and weapons, as well as confiscation of at least 193 weapons, \$385,000 in cash, and illegal drugs with an estimated street value of at least \$1.3 million. OIG personnel have facilitated the relocation of 54 witnesses to violent crime in public/assisted housing, and have worked with HUD and other agencies in a variety of other initiatives to improve the safety and security of persons living in public and assisted housing.

The initial focus of the violent crime initiative has necessarily been on law enforcement actions. As we gain ground, the OIG will need increasingly to turn its attention to forging an alliance among law enforcement, HUD, HUD partners, and HUD beneficiaries to put in place effective crime prevention mechanisms.

## Law Enforcement

### Task Force Operations

The following examples reflect the nature of the task force operations. Results for this semiannual reporting period alone included 989 arrests, confiscation of at least 168 weapons, \$300,000 in cash, and illegal drugs with an estimated value of at least \$1 million.

In **Miami, FL**, OIG Special Agents have been working with the Dade County police, as part of *Operation Take Back*, which has resulted in 75 arrests, and seizure of 17 weapons and almost one pound of illegal drugs. In addition to the law enforcement efforts, *Operation Take Back* promotes better community/police relationships through aggressive outreach efforts.

In **Baltimore, MD**, OIG Special Agents have been working with ATF, the U.S. Secret Service, and local and housing authority police as part of *Project Uptown*, which has resulted in 71 arrests, and seizure of 22 weapons, 3 vehicles, \$9,000 in cash, and illegal drugs with an estimated value of \$25,000. Many of the arrests were made inside public housing units identified as stash houses.

In **New Orleans, LA**, operations by the Safe Home Task Force have resulted in 85 arrests and seizure of 28 weapons, \$15,000 in cash, and over 1 pound of cocaine. Several of the arrestees were either suspected or wanted murderers. The task force consists of OIG Special Agents, DEA, U.S. Marshals, U.S. Secret Service, federal agencies and state and local police.

In **New Haven, CT**, at least 41 individuals have been arrested and \$24,000 in cash and 11 weapons seized following operations by OIG Special Agents, DEA and State Police working as part of a Gang Task Force.

In **Boston, MA**, OIG Special Agents have been working with DEA, state, local, and housing authority police as part of the Anti-Gang Fugitive Unit. This operation has yielded 182 arrests of persons living both legally and illegally in public housing for such crimes as rape, assault, and drug and weapons charges. In addition, in September 1994, the Anti-Gang Fugitive Unit conducted *Operation Back to School/Clean Sweep* at a particular public housing development. This operation targeted drug users and abusers who had previously been evicted from the development but refused



to stay away, continuing to inconvenience and terrorize residents who were taking their children to school. The operation resulted in 130 arrests and received favorable media coverage, including reports that the residents cheered the task force members as they performed their duties.

OIG Special Agents, DEA and **Washington, DC** Metropolitan Police conducted *Operation Redrum*, which has resulted in five arrests and the seizure of \$2,500 worth of drugs and \$1,200 in cash. Two of the arrestees are believed to have been involved in the contract murder of a public housing security guard in retaliation for disrupting narcotics trafficking.

In **New York, NY**, OIG Special Agents have been working with ATF, other federal agencies, and the local housing authority police as part of *Project Uptown*, resulting in 12 arrests, seizure of at least 25 weapons and \$51,000 in cash, and confiscation of illegal drugs with an estimated value of \$240,000. One operation during May 1994 resulted in the arrest of three individuals who had been illegally occupying a vacant unit and shooting at residents and police from project rooftops.

OIG Special Agents, the FBI, DEA, IRS, and local police investigated drug trafficking in public housing in **Chicago, IL**, resulting in the seizure of over one pound of heroin. In August 1994, an investigation by this task force resulted in the indictment of 19 individuals for allegedly conspiring to sell or distribute hundreds of pounds of cocaine and marijuana in public housing developments.

A Safe Home/Community Oriented Policing Task Force in **Aurora, CO**, has resulted in 83 arrests. On one particular day, 28 individuals were arrested, most of whom were living illegally in HUD assisted multifamily developments and using the apartments for illegal activity. OIG Special Agents and local police participated in this operation.

Various task force operations in **San Francisco, CA**, have resulted in 210 arrests. One particular task force, the Fugitive Recovery Enforcement Team, which includes HUD OIG, the FBI, ATF, U.S. Marshals, and state and local police, made 90 arrests in one day.

## Witness Relocations

Traditionally, witnesses to violent crime are reluctant to come forward or otherwise cooperate with law enforcement out of fear for their lives or the lives of their loved ones. In the past, the OIG has worked on an ad hoc basis with other federal, state and local law enforcement agencies to utilize HUD housing resources for witness relocation or undercover operations.

Under Operation Safe Home, this activity has increased substantially due to the enhanced cooperation between law enforcement and public housing agencies. In August 1994, HUD amended the Federal Preference Rule to facilitate the relocation of public housing tenants who have either provided information on criminal activity to law enforcement or will be testifying as witnesses at trial, and fear reprisals for their cooperation. On August 4, 1994, a HUD Special Agent in Charge testified before the House Judiciary Committee, Subcommittee on Crime and Criminal Justice, concerning this issue.

Witnesses have been relocated in all parts of the country. Our Special Agents in Charge in Boston, Philadelphia, Atlanta, Ft. Worth, Denver, San Francisco and Washington, DC, have facilitated these efforts. Examples include:



- In **New England**, several witnesses were relocated after their testimony led to a federal racketeering indictment against individuals for cocaine trafficking and murder.
- In the **South**, a witness to a murder which occurred in a public housing complex and the witness's family were relocated after the hotel in which the witness was being kept under protective custody was declared unfit for family living. In another case, two witnesses to murder in a public housing development were relocated to ensure their safety and their testimony.
- In the **West**, two public housing tenants who testified against three suspected major heroin dealers were relocated at the request of the police. In another case, a family living in public housing who had witnessed the murder of their son by other public housing tenants was relocated at the request of local police. Again at the request of the police, the witness to a fatal shooting in a public housing development was relocated after receiving death threats.
- In the **Mid-Atlantic** area, a witness who had provided the FBI with information concerning a public housing related homicide was relocated.

## Violent Crime Prevention Initiatives

In August 1994, HUD amended public housing eligibility requirements to allow public housing for police officers and other security personnel who would not otherwise be eligible.

The U.S. Secret Service, working with OIG, HUD Public and Indian Housing officials and the **Baltimore** Housing Authority (BHA), has completed a security assessment of a BHA public housing project. A final report is pending. The assessment, which was based on a complete physical inspection of the property and interviews with residents, BHA management and local law enforcement, will provide BHA and HUD personnel with technical guidance on enhancing the project's physical security, and will serve as a model for future efforts around the country.

The OIG is working with HUD Public and Indian Housing officials to develop standardized training programs and standards of operation for public housing police. In this regard, the Federal Law Enforcement Training Center in **Glynco, GA**, at the behest of the OIG, is cooperating in the development of a model training program for potential use by housing police.

The International Association of Chiefs of Police (IACP), in cooperation with the OIG, hosted a forum consisting of HUD Public and Indian Housing officials and ten police chiefs selected by IACP from around the country. The main focus of the forum was law enforcement's role in policing public housing, and the impact that HUD regulations have on that role. IACP representatives called upon Public and Indian Housing to review, strengthen and standardize eviction policies; clarify the role and responsibilities of housing authority police; and possibly amend laws/regulations to provide relevant funding for police operations in housing authorities.



## Combatting Fraud in Public Housing Administration

The Operation Safe Home strategy in this area entails:

- a joint OIG, Federal Bureau of Investigation (FBI), and DOJ commitment to aggressively investigate and prosecute alleged theft, misuse, or diversion of public housing funds; and
- a new program of probes by OIG audit/investigative teams to identify additional cases of potential fraud for further investigation by the OIG and the FBI.

Since the announcement of Operation Safe Home on February 4, 1994, the OIG/FBI/DOJ commitment to investigate and prosecute fraud in public housing administration has resulted in 45 indictments, 22 pleas/convictions, and sentences that include 49 months of incarceration and fines/restitutions totalling in excess of \$175,000.

In addition, under Operation Safe Home, teams of OIG auditors and investigators conducted fraud probes at 19 housing authorities. These probes were targeted to specific, high risk housing authority administrative operations; relied heavily on interviews to obtain information; were completed within 5-6 weeks each; and resulted in referrals for further investigation, rather than official reports.

The 19 probes resulted in 8 referrals for further investigation, and had the additional benefit of enabling a broader OIG presence in housing authorities throughout the country. The OIG is currently revising its housing authority selection criteria and internal operating procedures to enhance the efficiency and effectiveness of the additional six probes planned for completion by June 30, 1995.

### Prosecutions of Fraud in Public Housing Administration

The following examples illustrate the actions that resulted this reporting period from the OIG/FBI/DOJ commitment to aggressively investigate and prosecute fraud in public housing administration. These totalled 34 indictments, 18 pleas/convictions, and fines/restitution totalling in excess of \$170,000.

In **New York, NY**, three individuals with organized crime affiliations pled guilty in federal court to participating in a fraudulent scheme which included bid rigging to obtain lucrative window installation contracts let by the New York City Housing Authority.

In **Baltimore, MD**, one housing authority employee was sentenced and another pled guilty in connection with their involvement in accepting bribes from contractors in exchange for awarding renovation contracts. Two of the contractors were also charged with paying bribes.

A contractor in **Miami, FL**, was convicted of submitting inflated invoices totalling \$26,000 in connection with public housing renovation work. A public building inspector was also convicted for grand jury tampering in connection with this matter.

The former public housing Section 8 coordinator in **Rock Falls, IL**, pled guilty to stealing \$69,000 in federal funds by creating fictitious Section 8 landlords and housing assistance contracts.

Former employees of the Housing Authority of **Nogales, AZ**, were paid \$10,000 by Section 8 tenants and applicants to ensure their participation in the program and a former fee inspector pled guilty to submitting false statements to HUD. The former inspector and several PHA and bank employees diverted





\$240,000 in Section 8 assistance from the Authority by creating fictitious tenants and landlords in whose names rental assistance checks were issued and cashed. The inspector, the third person to plead guilty in this case, also received payment for inspecting units that did not exist.

Ten individuals in **Washington, DC**, including five housing authority employees, were charged with giving/receiving bribes in return for preferential treatment in the Section 8 program.

A **Minneapolis** Housing Authority employee was sentenced to 21 months in prison after a joint investigation with the FBI disclosed the employee demanded cash payments from low-income housing applicants in exchange for a place in public housing. The bribes ranged from \$300 to \$600.

Following a joint investigation with the FBI, a former **Chicago** Housing Authority employee was charged with making payments to a federal employee for services rendered to the contractor's company. The PHA employee also submitted false information in order to receive a HUD funded contract.

## Combatting Equity Skimming in FHA Insured Multifamily Housing

Equity skimming is the illegal diversion of revenues from an FHA insured project for the personal use of the owner or management agent. Equity skimming results in substandard living conditions for low-income families, the need for additional financial assistance from HUD, and losses to the FHA insurance fund through defaults and HUD's subsequent payment of insurance claims.

While existing statutes establish both criminal and civil penalties for equity skimming, HUD has taken few actions under those statutes. At the time Operation Safe Home was announced, there was an inventory of 72 OIG audits and other reviews that had identified \$63 million in potential equity skimming, but had not resulted in settlements or the imposition of criminal or civil penalties.

The Operation Safe Home strategy in this area entails:

- extensive OIG collaboration with DOJ and U.S. Attorneys in devising strategies for OIG presentation and DOJ pursuit of cases of multifamily equity skimming;
- direct referral of civil equity skimming cases by OIG auditors to DOJ and the U.S. Attorneys, rather than reliance on the HUD Office of General Counsel to make such referrals; and
- priority attention by the OIG Office of Investigation to equity skimming cases having potential for criminal prosecution.



Results obtained since the initiation of Operation Safe Home are as follows:

Operation Safe Home - Equity Skimming	
Status of Cases in Inventory	Number
Presented to AUSA for Litigation	85
Settled Prior to Presentation	10
Pending Presentation	31
Total Cases in Inventory	126
Status of Cases Presented	
Accepted Civil	42
Accepted Criminal	12
Accepted Both	10
Sub-Total - Cases Accepted	64
Pending AUSA Decision	15
Declined For Prosecution	6
Total Cases Presented	85

Obviously, the equity skimming component of Operation Safe Home is off to a good start, but obtaining final results will be a lengthy process. While overall success cannot be measured at this point, final results obtained during this reporting period are encouraging.

### Equity Skimming Results Obtained This Reporting Period

An OIG audit of French Village Apartments, **Kansas City, MO**, identified the misuse of \$263,000 in project funds by the owner. An investigation by the OIG and the FBI led to the owner/manager's pleading guilty to various charges of misappropriating federal funds which caused the default and payment of a \$2.4 million insurance claim by HUD. By the time HUD was finally able to take possession of the project, the owner had allowed the property to deteriorate to the point where it was valued at only \$750,000. The owner was sentenced to 2 months in a halfway house to be followed by 3 years of supervised probation, and \$63,000 in restitution to HUD. Civil litigation is being pursued to further recover funds misused by the owner.

In **Austin, TX**, the owners of the Lakes at Renaissance Park Apartments and their related companies were found liable to the government for \$1.7 million, including over \$30,000 in audit and \$5,000 in legal costs. An OIG audit identified the owners' improper use of over \$800,000 in project assets. Specifically, the owners loaned project funds to related companies, and their identity-of-interest management firm charged the project for excessive payroll costs and did not turn over all remaining cash upon foreclosure. After the owners refused a repayment demand by the HUD San Antonio Office, the government filed suit against them. The court's judgment awarded HUD double damages against the owners individually, the management agent, and the



related companies.

A civil complaint for almost \$600,000 was filed in **Auburn, AL**, against the four general partners and management agent of Hudson Arms Apartments, Phase I and II. This followed a 1993 OIG audit report which identified equity skimming by the partners and the management agent. The mortgages for these projects were assigned to HUD in March 1992, and HUD subsequently paid claims of \$1.6 and \$2.5 million, respectively.

The U.S. District Court in **Milwaukee, WI**, granted HUD a \$590,000 double damages judgment against the former owners of Lisbon Square and Wrihtown, two HUD assisted projects. The owners admitted misusing project funds, and in October 1989, agreed to repay HUD \$295,000. When they failed to comply, the Office of Housing, with assistance from the Office of General Counsel, began foreclosure proceedings, sold the projects, and brought a claim against the owners.

The current owners of Candlelight Apartments I and II, Ltd., **Warren, OH**, entered into a settlement agreement to repay \$17,000 to the federal government and accepted personal liability for up to \$125,000 in repairs. The equity skimming violations resulted from the unauthorized use and unsupported expenditure of project assets and income. The U.S. Attorney's Office also filed a civil complaint against the former owners for the misuse of \$250,000 in project funds.

The owner of Bryan Woods Apartments in **Garner, NC**, repaid the project over \$97,000 questioned in an OIG audit report. The HUD Greensboro Office had tried unsuccessfully, since November 1991, to make the owner return the funds. The field office received evidence of the repayment on April 6, 1994, the same day the OIG presented, and the U.S. Attorney accepted, this case for affirmative action as part of Operation Safe Home.

As a result of an OIG review of the operations of Erica Village, a project in **Vancouver, WA**, the owner repaid the project \$30,727. This amount was improperly withdrawn from the project when the insured loan was in default. The project's mortgage has since been made current.

### Related Audits Issued During This Reporting Period

An OIG audit of Hermanos Melendez Hospital in **Bayamon, PR**, disclosed that the owners improperly used \$8.2 million in project funds for unauthorized construction costs, personal expenses, and interest and penalties on late payments and overdrafts. The report also questioned the propriety of another \$3.8 million related to the owners' acquisition of supplies and services.

An OIG audit of Westwood I Apartments in **Coalinga, CA**, disclosed that the owner diverted over \$397,000 from project accounts, encumbered the project with \$769,000 in unauthorized liens, received \$293,000 in Section 8 overpayments and failed to record over \$213,000 in project receipts.

An OIG audit of Ya Po Terrace in **Eugene, OR**, reported that the former project administrator authorized payment of \$174,000 of Section 202 elderly housing funds. Most of the disbursements in question appear to have been for the personal benefit of the former project administrator and therefore are potential multifamily equity skimming violations.



## Chapter 3



# Major Programmatic Issue Areas

The OIG focused significant resources this reporting period on four major programmatic areas: Section 8 project-based assisted multifamily housing; the multifamily preservation program; large troubled public housing agencies; and the lead-based paint testing program.

## Project-Based Assisted Multifamily Housing

### The Risks

In July 1994, the Inspector General testified before the House Subcommittee on Employment, Housing and Aviation, Committee on Government Operations, that, while the majority of Section 8 assisted multifamily housing stock is relatively trouble free and of good quality, a disturbing number of projects are neglected by their owners. Tenants, with their rent subsidies tied to these projects, are essentially trapped in deplorable living conditions and HUD's risk for significant financial loss is enormous. That risk is evident first by rents at many HUD assisted projects that are significantly higher than those for comparable unassisted units, and second, by the tremendous losses HUD's insurance funds absorb when deteriorated projects default.

To put the financial risk in perspective, over 20,000 properties housing about 1.5 million families are currently receiving Section 8 project-based assistance. The estimated cash outlays for fiscal years 1993 and 1994 were about \$4.3 billion annually. Additional tens of billions of dollars are provided to owners and syndicators through tax shelters and tax credits. Notwithstanding these tremendous outlays, OIG audits consistently report that substandard units continue to be subsidized because HUD does not enforce its contracts or recover misspent funds to improve project and tenant conditions. A recent HUD study of 10,000 HUD subsidized projects estimated the cost of physical improvements at about \$1.1 billion, whereas cash reserves for repairs totalled only \$145 million.

These troubled projects need immediate attention. HUD must improve its loss mitigation procedures while at the same time ensuring that low-income families are provided adequate housing.

### HUD's Performance in Mitigating the Risks

As discussed previously, HUD suffers major systemic weaknesses that significantly impact its ability to turn these troubled projects around. HUD lacks the resources needed, in terms of both numbers and expertise, to adequately service loans and Section 8 contracts. The scope of these shortages was illustrated in the June 1994 Price Waterhouse audit report of FHA's financial statements. The audit pointed out the wide disparity between staffing levels at HUD and at other entities involved in multifamily housing lending. Because HUD loans are



typically much riskier, more troubled and more staff-intensive, the report stated, the disparity is even greater. The impact of staffing shortages could be offset somewhat through effective automated data systems. However, HUD's systems cannot be relied on to provide relevant, timely, accurate and complete information. The dollar loss in terms of misspent subsidies, insurance claims and asset management inefficiencies was judged by Price Waterhouse to likely run in the hundreds of millions of dollars.

HUD's management controls in the insured/assisted multifamily housing area are also weak. Field office physical property inspections, financial statement reviews and on-site management reviews have not been performed in a way that consistently identifies and resolves problems. Field offices are not adequately following up with owners and their management agents to ensure that problems identified through HUD monitoring are being addressed. This often contributes to insurance claims, unacceptable living conditions and excessive or wasteful subsidies.

Program enforcement can be an invaluable control in deterring abuse in HUD programs. However, HUD's program enforcement has been weak for many reasons, not the least of which are the staffing shortages and inadequate data systems. Yet, even when problems are detected, HUD has typically not taken aggressive enforcement actions on the grounds that such actions could ultimately harm the tenants or HUD.

In July 1994, the Inspector General testified before the Senate Committee on Governmental Affairs that equity skimming in insured multifamily housing is a notable area of high risk and emerging fraud in government programs. Due to HUD's failure to take aggressive enforcement action in this area, the OIG has made equity skimming one of the three targeted abuses of Operation Safe Home. For more details, see the Operation Safe Home segment of this report.

#### Examples of Troubled Projects Audited This Period

An audit of a management agent/owner of assisted projects in **Boston, MA** (Report No. 94-BO-214-1009), disclosed that actions are needed to prevent the two projects from becoming part of HUD's property disposition inventory. One project required substantial rehabilitation, estimated to cost over \$6 million, to remain a viable project. The project's poor condition contributed to the 35 percent turnover of tenants and increasing operating costs and vacancy losses. The second project is in acceptable physical condition but the management agent/owner indicated that they could not make a \$465,000 payment due September 30, 1994.

An audit of a cooperative in **Framingham, MA** (Report No. 94-BO-212-1008), showed that it failed to increase rents during a period of rapidly rising expenses. As a result, the project is not generating sufficient revenue to pay operating costs, service its debt, and fund \$1.2 million in critically needed repairs.

An audit of an apartment complex in **Junction City, KS** (Report No. 94-KC-212-1801), estimated that \$724,000 in repairs would be needed to restore the physical condition to an acceptable level. In addition, \$38,000 collected from tenants was not deposited, and the accuracy of the records could not be evaluated as access was denied. In March 1994, the owners transferred the property to HUD as part of a bankruptcy settlement.

#### Actions to Address the Risks

HUD is taking positive steps to improve its management and enforcement performance. However, most of these actions are long-term in nature, requiring a sustained commitment to staffing and systems development,



and improved portfolio management. The OIG believes HUD needs to move aggressively now to lay a foundation for decisions about the future of project-based assisted projects. In our judgment, that foundation must begin with comprehensive analysis of each project that enables logical conclusions about potential alternatives.

The July 1994 testimony before the House Subcommittee on Employment, Housing and Aviation, Committee on Government Operations, led to the introduction of H.R. 5115, the Section 8 Project-Based Program Management Improvement Act of 1994. This bill would require HUD to identify all troubled Section 8 project-based projects and perform complete financial and social impact analyses. The OIG strongly supports enactment of this type of legislation.

To assist in this process, the OIG Office in Seattle, at the request of the Subcommittee, performed financial analyses of two troubled projects — Holiday Lake Apartments in Pompano Beach, FL, and Sierra Nevada Arms in Las Vegas, NV. The analyses were performed to determine whether it would be more cost effective to provide Section 8 tenant-based vouchers to all residents in the projects, or to rehabilitate the projects with borrowed funds and provide Section 8 project-based assistance to all units in the properties to cover the cost of the rehabilitation. As reported at a recent Subcommittee hearing, OIG analyses showed that the rehabilitation option is less expensive than the voucher option for both projects, but the Inspector General cautioned that each individual project would have to be reviewed on its own merit for these kinds of decisions to be made. In this regard, the OIG is planning to assist HUD in the development of a model to use in evaluating troubled projects.

Legislative action is also necessary to enable HUD to implement reasoned decisions that are in the best interests of the residents as well as the federal government. For instance, the OIG supports the provisions of H.R. 5115 that would permit HUD to recapture Section 8 funds for reuse as vouchers and certificates; repeal a prohibition on lowering Section 8 rents; require HUD to develop regulations on conducting comparability reviews; and allow HUD to switch between applying two different methods for determining rent increases when refinancing.

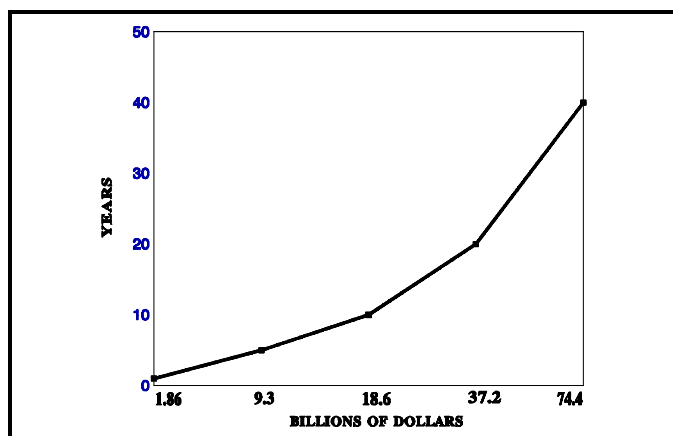
## Multifamily Preservation Program

### The Risks

Because of the anticipated high cost of preserving affordable housing, the OIG is looking closely at the Multifamily Preservation Program under the Emergency Low-Income Housing Preservation Act of 1987 and the Low-Income Housing Preservation and Resident Homeownership Act of 1990. The Inspector General recently testified before the Subcommittee on Employment, Housing and Aviation of the House Committee of Government Operations that the program is an emerging scandal. With an estimated 400,000 units eligible for assistance, tens of billions of dollars are at stake. During the testimony, the IG recommended Congress repeal all multifamily preservation legislation and terminate all processing so that no more projects are preserved under the statutes.

The testimony on the Multifamily Preservation Program was based, in part, on an April 1994 OIG review (Report No. 94-SE-114-0003), which disclosed that the Preservation Program -- by compensating owners through substantial FHA insured equity take-out loans or increased annual distributions -- increases the risk of default to the FHA insurance fund. Although well intentioned, the program is inflexible and enormously costly.





### Estimated Cost of Preservation Program Over 40 Years

In the 1980s, owners with prepayment clauses could prepay their HUD insured mortgages, and take their projects out of the low-income housing market. Because of the fear of loss of subsidized housing, especially in areas such as California and Massachusetts where real estate costs were escalating, the Congress passed the Emergency Low-Income Housing Preservation Act of 1987, followed by the Low-Income Housing Preservation and Resident Homeownership Act of 1990. Through these Acts, HUD could pay owners to keep projects in the program.

Under the Preservation Program, equity take-out loans and increased annual distributions for owners are financed by HUD and residents through increased rents and subsidies. Preservation increases the risk to the FHA insurance fund if HUD rental subsidies do not offset increased vacancies and unassisted resident rents are lower than the Section 8 rents.

Even if a project is not needed to meet the needs of very low-income residents, only the owner can decide to remove it from the program. HUD does not have the flexibility to examine the housing market and exclude a project because lower cost alternatives are available, it is not needed, or it is not likely to leave the program.

#### Related OIG Audit Work

On April 27, 1993, the OIG had reported that more guidance and training were needed for field office staff to ensure properties were awarded appropriate incentives and accurate valuations of preservation value (Report No. 93-HQ-114-0010). That audit recommended, in addition to steps to improve staff capabilities and evaluate staffing levels, that HUD pursue legislative changes for preserving housing in a more cost effective manner.

As a follow-up to previous preservation work, the OIG Boston Office is currently analyzing two projects — Sherwood Park Apartments and Georgetowne I and II — to determine the actual effect the incentives have had on HUD, tenants, owners and the community. As shown in the following chart, the effect is dramatic.

	Sherwood Park	Georgetowne I/II
Number of Units	81	967
Date Plan Approved	Jan 91	Sept 92



Incentives	\$3.8 million take-out loan and Section 8 contract authority of \$344,000 for 30 units	\$36.9 million take-out loan and Section 8 contract authority of \$6.3 million for 343 units
Rent Increase over 3 years—3-bedroom unit	\$356 to \$1,059	\$475 to \$995
Section 8 rents	\$1,690—170% fair market rent	\$1,078
No. of tenants moved after plan approved	37 or 46%	231 or 24%

Over the long-term, in order to avoid a default or project deterioration, HUD will have to either increase the Section 8 rents or increase the numbers of Section 8 units to keep pace with the increased debt service and the loss of market rate tenants. It would be far less costly to provide owners with rehabilitation loans at no cost and eliminate equity take-out loans entirely.

#### Actions to Address the Risks

The OIG recommends repeal of Titles II and VI of the preservation legislation. The OIG estimates that if the new legislation were developed to provide HUD with the flexibility to analyze and implement the least costly method of funding long-term low-income housing, costs could be reduced by tens of billions of dollars. Options could include:

- purchasing projects and giving them to housing agencies to manage;
- allowing prepayment and purchasing of new or existing housing or constructing replacement housing to replace lost units;
- allowing prepayment and arranging for Section 8 project-based assistance of units in currently unassisted projects to replace units lost to prepayment;
- allowing prepayment and giving Section 8 vouchers or certificates to those residents who qualify for rental assistance; and
- providing a grant to rehabilitate the project in exchange for a commitment to retain low-income housing for the remaining useful life of the project, if a project has no equity and the owner wants to stay in the program.

The OIG's April 1994 audit also pointed out that establishing a partnership with state and local housing agencies would greatly enhance HUD's ability to implement the cost saving options recommended.

The Congress, HUD and property owners recognize the need to make the program more cost efficient. HUD recently formed a work group consisting of HUD staff, property owners and resident representatives to develop and evaluate potential legislative and administrative changes to the program. In addition, the Assistant Secretary for Housing/Federal Housing Commissioner agreed to pursue legislative changes, stating that his office would consider the audit recommendations, along with changes developed by the work group.

#### Related Solutions

Similar actions are needed to better address troubled assisted multifamily housing projects, as well as the costly preservation of projects eligible for prepayment. In both instances, HUD needs greater program flexibility to pursue the least costly alternative for providing decent, safe and sanitary housing to project residents. Sufficient flexibility would be provided if the Congress were to act on the proposals discussed in the





above two sections titled "Actions to Address the Risks."

In determining the most advantageous means of continuing to house existing subsidized tenants, HUD will need to conduct a project by project analysis, which considers not only the project's physical and financial condition, but also the housing market and social conditions of the community, too. To the extent that HUD does not have the capacity to perform such analyses, contracting for adequate capacity should be considered. The cost of the analytical effort should be more than offset by program savings to taxpayers, and improved program service to low-income residents.

During the next 5 years, nearly 12,000 project-based subsidy contracts will expire. This presents a rare opportunity to determine if there are other, preferable subsidy contract arrangements or alternatives to providing decent, safe and sanitary housing for tenants in existing projects. The House Subcommittee on Employment, Housing and Aviation, Committee on Government Operations, has proposed holding a summit meeting in December 1994 with House and Senate members, OIG, GAO, HUD and various tenant and owner groups to analyze alternative actions for continuing to house low-income people residing in project-based assisted housing.

## Public Housing Programs

### The Risks

Although most public housing agencies and their employees manage their programs well, over the past decade the OIG has reported a pattern of serious operating and management problems at many large urban public housing agencies (PHAs). The reports disclosed deteriorating living conditions coupled with rampant spending, uncollected rents, and virtually nonexistent cash management and control practices. OIG audits during this semiannual reporting period found some improvements in the administration of Public Housing Programs, notably the Office of Public and Indian Housing's new approach to PHA oversight. However, long-standing and pervasive management problems remain, which will take years to overcome.

In May 1994, the Inspector General testified before the House Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, on HUD's Public Housing Programs, and more specifically, how the performance of the District of Columbia Department of Public and Assisted Housing (DPAH) compares to that of other PHAs. The IG testified that some large PHAs continue to experience serious management problems along with extensive social and financial distress. Today, Public Housing Programs must meet not only the housing needs of residents but social needs as well. Billions of dollars are needed for capital improvements. HUD's operating subsidies are increasing at a faster rate than operating receipts. An inefficient operating subsidy delivery system is a contributing factor. Also, administrative expenditures are increasing at a faster rate than maintenance expenditures. Increasing federal program requirements are a factor. As a result, PHAs are becoming more dependent on federal operating subsidies to meet their costs and less is being spent on repairing the housing stock. While the severity of needed repairs ranges widely from easily corrected to major, in too many situations residents live in units that threaten their health and safety. However, even when tenants move out there is insufficient incentive to aggressively seek new occupants because, under current rules, HUD continues to subsidize the vacant unit, with only a loss of the smaller tenant rental income on the unit.

Over the years, real progress in overcoming long-term problems has been slow. However, HUD's many changes in its monitoring strategies and procedures have resulted in HUD's knowing more about the conditions



and causes of problems at troubled PHAs. It is now evident that each PHA has its own unique set of wide-ranging and major concerns involving administrative, management, and social matters. Thus, many PHAs remain on the troubled list for years -- despite program-wide initiatives to address the problems.

Recently, HUD has stepped up its pace of intervention and has attempted to make local government more accountable for turning things around. While it is too soon to tell whether this strategy will result in meaningful, long-term changes, there are indications that positive actions are being taken in the short term. In addition, PIH management has taken aggressive steps to significantly reduce the patchwork of federal laws and regulations that hinders rather than encourages management improvements.

#### Major Housing Authority Audits This Period

The OIG audit of the **Housing Authority of New Orleans** (Report No. 94-FW-201-1005), designated a financially troubled agency by HUD in 1979, found that the Authority and its management contractor did not effectively manage its activities. Operations, funded by HUD at \$60.5 million in 1993, were inefficient, ineffective and uneconomical; units were not decent, safe and sanitary and there was not an effective and economical maintenance operation to provide such units; projects did not comply with HUD modernization standards; purchases were not always fairly and reasonably priced; and the commitment, leadership, and management initiatives needed to provide a safe environment for residents were not evident.

The impact of the mismanagement is tremendous. Poor maintenance led to increased insurance claims, pushing the potential liability to \$40 million and threatening receivership. The Authority estimated it needed \$472 million to modernize its current housing stock, but current trends indicate \$1.3 billion may actually be needed. Ineligible costs identified during the audit totalled nearly \$1.5 million and unsupported costs another \$3.3 million.

The Authority contracted with the management firm in 1989 and again in 1991. However, having a management firm work parallel with Authority management did not prove as beneficial as planned. Neither the board of directors nor the contractor had taken actions to correct long-standing systemic problems.

Because there was no measurable change in Authority management since the last OIG audit more than 10 years ago, the OIG recommended HUD put Authority operations entirely under private management. Since issuance of the OIG audit report, the Housing Authority has terminated its contract with the management firm and has entered into a "recovery partnership" with HUD. This joint recovery effort is in its initial stages.

While the OIG audit of the **Baltimore Housing Authority** (Report No. 94-PH-201-1016) found that the Authority attempted to improve overall management and living conditions of public housing residents, improvements have been short-term and operational changes have not been monitored or completed. Operations, funded at \$106 million annually, have been hampered by weaknesses in fundamental supervision, management practices and oversight.

Citing the immediate need to reduce waiting lists, occupy vacant units, stem vandalism, and increase dwelling rental income, the Authority moved to rapidly renovate and occupy long vacant units. By declaring emergency housing conditions, management set aside procurement requirements and engaged contractors noncompetitively. The renovation budget that began at \$1 million and \$10,000 per unit exceeded \$25 million and \$25,000 per unit in less than 2 years. Noncompetitive contract awards resulted in substantial overpricing, incomplete and shoddy work, and product substitution. In addition, noncompetitive procurement and control vested in just one supervisor left the program vulnerable to fraud. As of September 30, 1994, an ongoing



FBI/OIG investigation into fraudulent activity had resulted in two contractors being charged with giving bribes and two PHA officials pleading guilty to receiving bribes, one of whom was sentenced to 18 months in jail.

The rapid renovation program depleted the \$12 million operating reserve to less than \$3 million and although the number of occupied units increased initially, the increase resulted from earlier renovation work. In 1994, vacancies rose from 1,600 to 1,800 units, despite a waiting list of over 18,000 families. The Authority also spent over \$4.1 million on security services and systems without assurance of the best price, best qualified firm, or full and open competition.

#### Actions to Address the Risks

As mentioned in the Systemic Management Problems segment of this report, PIH initiated a new approach to PHA oversight in order to better diagnose and solve PHA problems across the country. The risk-based approach to oversight of PHAs centers on flexibility, partnerships, and a commitment to long-term problem solving. This strategy helps to better focus HUD's limited capacity on the most troubled PHAs.

During this reporting period, the OIG reviewed the implementation of this new approach, as piloted in four locations: **Chicago, Minneapolis-St. Paul, Milwaukee, and New York** (Report No. 94-CH-101-0802). The OIG found the new field office structure was implemented within established parameters and the Chicago and Minneapolis-St. Paul Offices, which had been in the pilot program for about a year, had implemented the risk-based monitoring procedures. As a result, the monitoring activities of those two offices were better focused on the PHAs with the weakest performance, and the PHAs were generally pleased with the change in approach.

The Office of Public and Indian Housing's improved oversight must be supplemented by improved legislative and regulatory tools concerning rents, funding, admissions and replacement housing. The OIG supports the following provisions that were contained in S. 2281, the Housing Choice and Community Investment Act of 1994:

- the deregulation of small PHAs and high performing PHAs;
- rent reforms such as ceiling rents to keep working families in public housing and the disallowance of earned income for certain residents who obtain employment; and
- the use of modernization funds for replacement housing.

Although these provisions were not acted on in the previous Congressional session, they should be reconsidered.

## Lead-Based Paint Testing and Hazard Abatement Programs

HUD's lead-based paint program in public housing has plunged ahead without adequate controls, driven by a Congressional mandate and consultants from an unregulated industry eager for government funded business. Based on OIG findings, results from contracted testing at many PHAs nationwide should be considered suspect and unreliable.

#### The Risks

Unless closely supervised, testing contractors can and have falsified test results. Abusive practices, such as



occurred at PHAs in **Memphis, TN** (Report No. 94-AO-209-1002), and **Birmingham, AL** (Report No. 94-AO-209-1809), and poor quality control over testing elsewhere (HUD BCA 94-C-154-D21), make the reliability of X-Ray Fluorescent (XRF) and laboratory test results questionable for many public housing agencies. These contractors shortcut XRF testing protocols, both in number of units tested and the extent of tests in each unit. When units were tested, the contractors often spent only 20 minutes on tests that should have taken 2 hours. Follow-up investigative and audit work resulted in the Department's suspension of these companies and their employees.

The falsified testing occurred primarily when the contractors prepared manual records of XRF test results, and PHA oversight was deficient. However, PHA staff cannot and should not have to monitor contractors at every unit. Fortunately, automated technology is now available in the XRF industry to reduce inadvertent operator error and discourage fraud. Unfortunately, the Environmental Protection Agency (EPA) and HUD appear reluctant to recommend use of this technology as a quality assurance tool. We therefore anticipate that inconsistent testing and fraud will continue to plague the Department's lead-based paint programs. As for the initiative in public housing, only redoing suspect testing, under strict protocols that use the latest XRF technology, can give HUD and PHAs adequate assurance to plan for and begin lead abatement.

A professionally trained and certified workforce to perform the tests and abate the hazards is still in infancy. Lead inspectors in many states can be licensed by simply completing an 8-hour course. Unsafe abatement practices such as occurred at **Pittsburgh, PA** (Report No. 94-AO-209-1804), may be commonplace in private and public housing renovation, and often increase rather than reduce the health hazards from lead.

Reliability of XRF readings assumes the lead inspector followed manufacturer protocols carefully when performing the tests. Similarly, reliability of laboratory analysis assumes the same lead inspector collected paint samples in the right volume, without contamination. Regulatory controls over each industry, on the other hand, are just being developed at EPA.

HUD relied on consultants to develop its 1990 Guidelines on Lead-Based Paint Testing and Abatement and current draft revisions to this guidance. The OIG observed and advised the Assistant Secretary for Public and Indian Housing that, in our opinion, some consultants had a vested interest in the services recommended in the Guidelines, but not in controlling the cost of those services.

#### Actions to Address the Risks

The OIG believes the Department should suspend further tests and delay abatement at some PHAs until greater assurance of testing reliability has been obtained. Also, while the Department has focused rightly on locating the lead-based paint hazards at PHAs, none of the \$300 million spent for testing, abatement, and related consultant services has bought the information most critical to this health issue -- how many of the young children living in public housing suffer from elevated blood lead levels. Answering this question should be part of the Department's public housing policy. It just makes good common sense to test the children, not just the paint, before committing more millions to abatement.

As a corollary to the public housing review, the OIG is currently evaluating HUD's state and local government grant program and will study alternative methods of reducing lead-based paint hazards in privately owned housing.



## Chapter 4



## Other Significant Audits and Investigations

This section summarizes other significant OIG audits and investigations in six program areas — Multifamily Housing, Community Planning and Development, financial management, Section 8 Rental Assistance, Single Family Housing and Homeless Programs.

### Multifamily Housing Programs

For years, OIG audits have disclosed project owner and management violations involving unsupported and unauthorized expenses that contribute to both the physical and financial deterioration of multifamily projects. These violations are in addition to those addressed in the discussion of Operation Safe Home. Recent examples include the following:

A management agent in **Detroit, MI** (Report No. 94-CH-214-1031), charged \$2.9 million in unsupported maintenance costs to 17 HUD insured projects, over \$2 million of which may be unreasonable. The agent also failed to maintain adequate fidelity bond coverage and assure that all project funds on deposit were fully insured. The audit report recommended that HUD require the agent to support the reasonableness of the maintenance costs, return to the projects any costs that cannot be supported, assess only reasonable and supportable maintenance fees in the future, and maintain adequate project operating procedures.

A management company in **Parsippany, NJ** (Report No. 94-PH-212-1017), charged over \$952,000 in unauthorized interest expenses to a HUD insured project for advances and loans from the owner/partners. The management agent also charged HUD insured projects over \$115,000 in unsupported costs, used tenant security deposits to cover project operating shortfalls, and had no written procurement policy. The audit recommended that the agent reimburse the projects for all ineligible and unsupported costs, fully fund tenant security deposit accounts, and implement a written procurement policy. HUD should take administrative sanctions if the agent refuses or fails to reimburse the ineligible and unsupported costs.

OIG investigations disclosed the following cases of theft and embezzlement in Multifamily Housing Programs:

In **Newark, NJ**, a husband and wife were charged with bribery, conspiracy, and theft in connection with the improper award of \$1.5 million in security contracts to a HUD assisted project.

The OIG assisted local investigators in a case where the former manager of a multifamily project in **Joppa, MD**, was charged with theft of at least \$278,000 in project funds.

The owner of a HUD assisted project in **Kansas City, MO**, was sentenced to 1 year in prison and ordered to repay HUD \$215,000 that the owner diverted for personal use by paying fictitious companies for work that was never performed. In a separate case, another HUD assisted project owner was ordered to



repay HUD \$63,000 in project funds that the owner diverted for personal use.

The former executive director of a housing management company in **Lowell, MA**, who embezzled company funds for his personal use was sentenced to 1 year in prison, 2 years probation, fined \$5,000 and ordered to pay \$70,000 in restitution to the management company.

A site manager for a realty management company in **Marlton, NJ**, was indicted for submitting claims for rental subsidies for vacant apartments. To date, the company has submitted vouchers to the New York State Housing Finance Authority for over \$91,600 in credits because of the overpayments.

A management agent for four HUD insured properties in **Kansas City, MO, St. Louis, MO, and Decatur, IL**, was indicted on 15 counts of submitting false statements to HUD, fraud, interstate transportation of stolen property, and tax evasion.

A former site manager for a multifamily cooperative in **Washington, DC**, convicted on tax evasion and embezzlement of project funds, received 4 years probation, 1 month home detention and a \$2,400 fine. This was a joint FBI/IRS/OIG investigation.

## Community Planning and Development

### HOPE 3

The purpose of HUD's HOPE 3 Implementation Grant Program is to provide homeownership opportunities to low-income families, who are first-time homebuyers, to purchase federal, state or local government owned single family properties. Grant applications are accepted only from private nonprofit organizations, cooperative associations, and public bodies cooperating with private nonprofit organizations. OIG initiated 10 audits of HOPE 3 grantees during this reporting period. Of the five that were completed, in four the OIG found that not all the requirements of the program were being met. Most importantly, in at least three of the four, the number of properties actually transferred to low-income families was far below the planned number.

In administering its HOPE 3 implementation grant, the City of **Indianapolis, IN** (Report No. 94-CH-256-1029), acquired eligible properties, but only 2 of the 100 properties planned to be transferred were actually transferred after 18 months of the 2-year project period. In addition, those two homes, although occupied, had safety violations. The City also did not adequately assure that families approved for homeownership were eligible, did not assure that subrecipients accounted for recovered acquisition costs, and could not support \$233,000 of \$268,000 in reported matching contributions.

Although 75 percent of the way through the grant period, the **Columbus, OH** Housing Partnership (Report No. 94-CH-256-1028) had transferred only 8 of the 50 properties it had planned to transfer. Three of four occupied units had health and safety violations, and families were not required to certify that they intended to occupy units as a principal residence. In addition, the Partnership sold a home to an ineligible buyer, drew down excess administrative costs, and may not assure matching non-federal funds are provided within timeframes established in the grant agreement.

The **Tarrant County, TX** Housing Partnership and its subrecipient, the City of Ft. Worth (Report No. 94-FW-256-1010), transferred only 45 of the 175 planned properties although it was also 75 percent through the grant period. The Partnership may be in default of its grant agreement, and if performance does not improve, will deny low-income families the opportunity to become homeowners. If the Partnership does not meet an



acceptable completion schedule, HUD should terminate or reduce the HOPE 3 grants.

The **City of Trenton, NJ**, planned to transfer 40 properties to eligible families, but just 2 months short of the end of the grant had transferred none (Report No. 94-NY-256-1014). The City plans to request a 1-year extension that should allow 26 properties to be transferred. However, environmental clearances — the problem that has delayed the project so far — have not been obtained for the remaining 14 properties.

## Use of CDBG Funds

Instances of misspent Community Development Block Grant (CDBG) funds have been repeatedly reported in past Semiannual Reports to the Congress. Successful prosecutions of those defrauding the program have also been reported. The following represent results during this period.

An OIG audit disclosed that for 3 years **San Bernardino County, CA**, rehabilitated fewer than 100 single family housing units even though its Comprehensive Housing Affordability Strategy stated there were over 9,800 in need of rehabilitation (Report No. 94-SF-241-1008). The County also could not support that \$1.4 million spent for job creation and retention activities primarily benefitted low- and moderate-income persons. In addition, about \$615,000 in CDBG funds were spent for repairs but the repairs were either not performed, incomplete, incorrect, or too costly, and \$347,000 in loans was awarded for the rehabilitation of houses where the work, in some cases, did not meet required inspection standards. Also, special grant funds of \$486,000, approved in October 1990 to relocate and expand a domestic violence shelter, have remained undisbursed for more than 3 years.

In **Brownsville, TX** (Report No. 94-FW-241-1007), documentation to support \$1.3 million in CDBG funds for eligible activities could not be provided. The City did not adequately monitor subrecipient activities or supervise work done by code inspectors, and used CDBG funds for local government building costs.

A subrecipient in **Saginaw, MI** (Report No. 94-CH-241-1024), was not monitored to assure it properly funded loans, determined that a national CDBG Program objective was met, and pursued collections on delinquent loans. As a result, loans totaling \$566,000 may not have met program eligibility requirements, and HUD had no assurance that the loans did not unduly enrich for-profit businesses.

Investigation activities resulted in the following:

The former director of the Office of Community Improvement and an architect in **Lincoln Park, MI**, were convicted of making false statements. A joint FBI/OIG investigation disclosed that the individuals received \$250,000 in federal funds after falsely claiming that they had incurred certain expenses.

An excavating and grading company in **Granite City, IL**, was ordered to pay \$51,400 in fines and assessments after admitting to falsifying records that stated a minority contractor was being used on the project.

The former commissioner of the **Yonkers, NY** Planning and Development Department was sentenced to 46 months in federal prison. The commissioner was previously convicted for using his office to solicit and extort payment from persons seeking to do business with his office or to obtain CDBG funds. This was a joint FBI/OIG investigation.

HUD filed a civil complaint against a landlord in **Brooklyn, NY**, under the Program Fraud Civil Remedies Act. The landlord submitted fraudulent property appraisal letters from nonexistent real estate companies as part of an application for a \$230,000 Section 312 loan.



## CDBG Material

### Weakness Closed

The Secretary's Management Report on Material Weaknesses identified two control weaknesses in the monitoring of the State/Small Cities CDBG Program: lack of timely written guidance or technical assistance; and inadequate monitoring of compliance by grant recipients. An OIG review (Report No. 94-AO-142-0805) disclosed that corrective actions were completed. The only action remaining is for the Assistant Secretary for Community Planning and Development to issue economic development regulations to incorporate the 1992 amendments to Title I of the Housing and Community Development Act and revise the monitoring handbook to reflect policy changes. Therefore, the OIG is recommending the material weakness be considered closed.

## Financial Management

### FHA Financial Statements

The OIG issued the results of Price Waterhouse's audit of **FHA's financial statements** for the year ended September 30, 1993 (Report No. 94-FO-131-0002). OIG concurs with Price Waterhouse's opinion that the financial statements present fairly FHA's financial position and results of its operations and cash flows in conformity with generally accepted accounting principles. For FY 1993, FHA operations resulted in an excess of revenue over expenses of \$1.6 billion. This is attributable to a \$1.6 billion decrease in the multifamily loss reserves for the fiscal year, which was recorded as a credit in the statement of operations.

Price Waterhouse's report on internal controls included the same five reportable conditions disclosed in the prior year's audit, the first four of which are classified as material weaknesses. The reportable conditions are:

HUD must implement its plan to mitigate resource shortages and periodically assess the plan's effectiveness. Because HUD has been unable to obtain the necessary levels of additional staff and fund resources to properly manage the FHA programs as currently designed, HUD has begun to examine alternatives to restructure FHA's programs and operations so as to curtail or eliminate staff-intensive activities and free-up staff to concentrate on the more critical functions. However, if after significant implementation of the action plan, it is found that problems in loan servicing and risk management persist, then HUD may have to consider structural changes.

Insured mortgage servicing must place more emphasis on early warning and loss prevention. By monitoring both those who endorse FHA mortgage insurance and borrowers, HUD would prevent note assignments and property conveyances and ease FHA staff burden when excessive numbers of mortgages and properties must be managed, serviced and sold. Although these efforts must be made in both the multifamily and single family areas, the potential losses are greater in the multifamily area.

FHA must promptly resolve the growing number of Secretary-held multifamily and single family mortgages. Selling a considerable portion of the Secretary-held mortgage note portfolios would be a positive step in reducing the workload for field office staff and allow them to concentrate on monitoring the financial and operational health of the insured portfolio.

Continued emphasis must be placed on improving accounting and financial management systems. Financial statement information on a program by program and regional basis will greatly improve the ability of management to identify those programs which are performing outside expected norms.

FHA must perform a complete review of the security and processing controls for all computer systems.





Internal controls surrounding access to computer systems, and key input and processing controls surrounding them, are not adequate to provide reasonable assurance that funds, property and assets are safeguarded and assets, liabilities, revenues and expenses are properly recorded and accounted for to permit preparation of reliable financial reports and maintain accountability over FHA assets.

The report on compliance with laws and regulations disclosed noncompliance with the financial reporting requirements of the Credit Reform Act, resulting in the credit reform "liquidating account" being overstated and the "financing account" being understated by \$500 million.

While FHA has taken certain actions to address recommendations made in audit reports on prior years' financial statements, corrective actions are not complete.

## HUD Consolidated Financial Statements

The OIG issued the results of Price Waterhouse's audit of **HUD's consolidated financial statements** for the year ended September 30, 1993 (Report No. 94-FO-177-0003). Price Waterhouse was unable to express an opinion on HUD's consolidated financial statements and their disclaimer of opinion also applies to HUD's consolidating statements. The auditors noted that HUD, in its December 1993 Report on Compliance with the Federal Managers' Financial Integrity Act, stated that the Department, as a whole, was not in compliance with Sections 2 and 4 of FMFIA and with Credit Reform Act financial reporting requirements. HUD's non-conformance with FMFIA is attributed to both its inadequate process for evaluating internal controls and financial systems for assessing compliance with FMFIA, and widespread material weaknesses and system nonconformance in most all of HUD's major programs.

HUD's most serious internal control weaknesses pertain to its grant and subsidy programs, including its largest, Section 8 rental assistance program. Existing controls do not assure that funds provided to public housing agencies and multifamily project owners are correctly calculated based on recipients' eligibility and that the objectives for which funding is provided are achieved. Additionally, HUD's systems do not yet provide accurate information to estimate commitments under existing subsidy contracts and budgetary requirements to renew expiring contracts.

Price Waterhouse's report on the financial statements also discusses significant issues relating to loss reserves on FHA insured multifamily mortgages and the extent of contractual commitments, both funded and unfunded, to provide housing and community development assistance in the future. Because HUD's internal control structure and systems do not provide reasonable assurance about whether amounts included in the financial statements are fairly stated in all material respects, Price Waterhouse could not express an opinion on the Department's consolidated financial statements.

There are 13 reportable conditions identified that could adversely affect HUD's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Six of these include issues which Price Waterhouse also reported previously in their FY 1993 financial statement audits of FHA and the Government National Mortgage Association. Seven reportable conditions, three of which are also classified as material weaknesses, pertain to departmentwide and grant and subsidy program control weaknesses. These seven reportable conditions relate to the need for HUD to:

- Improve financial management systems.
- Continue to implement performance measurement and reporting.



- Strengthen security controls over financial systems.
- Complete initiatives to improve the effectiveness of housing authority monitoring.
- Move forward with initiatives to improve the effectiveness of multifamily project monitoring.
- Continue attempts to refinance Section 235 mortgages.
- Correct problems in the recently implemented loan accounting system.

In audit reports on HUD's prior years' financial statements, Price Waterhouse provided various recommendations to address HUD's internal control weaknesses. While HUD has taken certain actions to address these recommendations, corrective actions are not complete.

## Rental Assistance

Through subsidies to owners, Section 8 Tenant-Based Programs assist low- and very low-income families to obtain decent, safe, and sanitary housing. During this reporting period, OIG audits disclosed accounting, administrative and procedural weaknesses and investigations continued to disclose eligibility problems.

An OIG audit found that the **Puerto Rico** Department of Housing's accounting and administrative controls needed significant improvement (Report No. 94-AT-203-1026). Lack of proper supervision and formal procedures contributed to inaccurate records, poor debt collection procedures and numerous other problems. Of most concern was the \$2.7 million difference between the ending operating reserve balance for the Certificate Program and the actual funds in the bank. In addition, procedures to select and recertify program participants were not adequate, unsupported costs were charged to the Section 8 Program, and housing quality standards were not enforced.

Over the 3 years ending June 30, 1993, a housing agency in **Raleigh, NC** (Report No. 94-AT-203/251/256-1017) drew over \$11 million more in Section 8 projects than was needed. The draws, ranging from about \$3 million for fiscal year 1991 to \$4.3 million for fiscal year 1993 — or an average of \$3.7 million a year — were deposited in the state's general fund. Although the excess draws were returned at the end of each year, the \$403,500 of interest earned was neither returned to HUD nor used to benefit the Section 8 housing projects.

OIG investigations into the use of false statements to illegally obtain Section 8 assistance led to the following results this period:

An OIG/FBI investigation led to a **Bluefield, WV** landlord being sentenced to 6 months home confinement and 5 years probation, and \$5,000 in restitution. The loss to HUD is estimated at \$70,000.

A task force investigation by HUD and Health and Human Services OIGs and state authorities resulted in a Section 8 tenant in **Indianapolis, IN**, being sentenced to 3 years probation and 4 months home detention, and \$5,000 in restitution. This investigation, known as *Operation Swindle*, resulted in the indictment of 19 persons for defrauding government assistance programs.

A joint investigation with the Postal Inspection Service, Secret Service and the Immigration and Naturalization Service netted the ninth member of a building-wide ring involved in illegal rental subsidies and other federal benefits in **Far Rockaway, NY**. The individual, an illegal alien, pled guilty to making false statements to HUD. To date, 17 persons have been arrested in this case.

In **San Diego, CA**, the owner of a subsidized property and the individual who claimed to be the owner



pled guilty to conspiring to obtain \$19,200 in Section 8 Low-Income Rental Assistance benefits to which they were not entitled.

A joint investigation with the Postal Inspection Service led to the manager of an apartment complex in **Peoria, IL**, pleading guilty to submitting altered rental applications so that unqualified persons could receive housing assistance.

Two former rental assistance recipients were indicted for theft and unlawful use of food stamps after they allegedly concealed social security benefits from the **Clackamas County, OR** housing authority in order to receive nearly \$16,000 in rental assistance.

In **Spokane, WA**, a husband and wife were charged with defrauding the housing authority by misrepresenting themselves as landlord and tenant to obtain Section 8 rental assistance to which they were not entitled.

## Single Family Housing Programs

Over the years, OIG audits, investigations and Semiannual Reports to the Congress have identified patterns of irregularities, questionable practices, fraud and abuse in a number of HUD's Single Family Housing Programs. While progress has been made to correct some of these abuses, many still persist.

Key to ridding the Single Family Programs of problems and deficiencies is alleviating the three systemic problems that affect almost everything that HUD does — management control environment, resource management, and data systems. In June 1994, the Assistant Inspector General for Audit testified before the House Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, on the financial condition of the Federal Housing Administration, and more specifically, the Single Family Housing Programs. The Assistant Inspector General pointed out that the controls over HUD's multi-billion dollar Single Family Note Servicing and Property Management Programs are inadequate. While there has been extensive analysis and strategic planning devoted to solving the problems, it is too soon to tell if the planned activities will materialize and make a significant difference. Key efforts include changing staffing patterns and skills; finding alternative methods such as mortgage sales to reduce workloads; and modifying or reengineering current processes, such as assignments and property disposition. The OIG believes that if the Office of Housing sustains its current momentum and focus, many of the past asset management problems will be alleviated over time.

OIG investigations continue to uncover significant fraudulent activities in the Single Family Programs, which are designed to encourage loans to first-time homebuyers and others who might not qualify for conventional mortgage loans. For the most part, the cases tend to be isolated instances of malfeasance by mortgagee personnel or brokers in the origination of loans, and by speculators and investors in equity skimming and strawbuying schemes. Equity skimming is the process of taking rent receipts but not making the mortgage payments. A strawbuyer is paid to act as the buyer of a property and to then transfer the property to a speculator who eventually defaults on the mortgage. In all cases, HUD and the taxpayers are the losers.

## Loan Origination Fraud

A contractor in **Atlanta, GA**, pled guilty to 29 counts of false statements to obtain 46 Title I loans. The



contractor conspired with others to obtain the loans, totalling over \$1.1 million, for properties they did not own.

A mortgagor in **Atlanta, GA**, was sentenced to 18 months in prison, 3 years supervised release, and 400 hours of community service, and was ordered to pay nearly \$606,000 in restitution to HUD. The mortgagor submitted false employment information to obtain 18 FHA insured mortgages worth over \$1 million. All of the properties have gone into foreclosure, costing HUD over \$600,000.

A **Washington, DC** mortgagor was sentenced to 6 months community confinement, 3 years probation, and 50 hours of community service for making false statements and aiding and abetting the submission of false statements. A joint OIG/Postal Inspection Service investigation disclosed that the mortgagor obtained two FHA insured mortgages and assumed another, all of which have been foreclosed. The estimated losses to HUD are \$250,000.

Following an FBI/OIG investigation, an individual in **Rochester, NY**, was sentenced to 18 months in prison, 3 months supervised release, and restitution of over \$200,000, and ordered to pay back taxes and a special assessment. In addition to credit card fraud and tax evasion, the individual obtained nearly \$130,000 in HUD insured mortgages using false names.

An individual in **Indianapolis, IN**, previously convicted of forgery and impersonating a HUD official, received a 2-year suspended sentence, 2 years probation, and 100 hours of community service. A joint investigation with the Indianapolis Police Department disclosed that the individual, while posing as a HUD official, obtained varying amounts of money in a fraudulent "rent to buy" scheme.

A former mortgage company president in **Denver, CO**, was indicted on false statement and wire fraud charges. A joint FBI/OIG investigation disclosed that the individual fraudulently obtained 12 FHA insured loans.

In **St. Louis, MO**, a \$17.4 million civil suit was filed against First Union Mortgage Corporation, formerly Cameron Brown Mortgage Company. The suit seeks to recover damages and civil penalties arising from false statements and claims submitted to HUD. The suit alleges that First Union knew that second deeds of trust executed by 43 investors/strawbuyers would be forgiven at closing and the properties would be deeded back to the sellers.

A strawbuyer in **Little Rock, AR**, pled guilty after a joint investigation with the FBI disclosed that the strawbuyer assumed approximately 25 single family mortgages and quit claimed the properties to co-conspirators. Losses to HUD are in excess of \$800,000.

A mortgagor in **Chicago, IL**, was sentenced to 8 months in prison after a joint investigation with the Veterans Affairs OIG disclosed that the mortgagor, along with several other individuals, fraudulently obtained mortgages on 10 properties, resulting in more than a \$200,000 loss to HUD.

## Equity Skimming

An investor in **Minneapolis, MN**, who assumed more than 40 FHA mortgages on single family properties, pled guilty after an FBI/OIG investigation. The multiple foreclosures resulted in approximately \$2.5 million in claim payments. Loss to the government amounted to \$1 million.

As a result of an FBI/OIG investigation, a mortgagor in **Chicago, IL**, was sentenced for submitting false statements to obtain several FHA insured loans. The mortgagor provided false information to strawbuyers



in connection with 16 properties, and then skimmed nearly \$300,000 in rents from the properties. He was sentenced to 5 years probation, 300 hours of community service and restitution of \$8,000.

A real estate agent in **Norfolk, VA**, was sentenced to 52 months in prison and 3 years of supervised release after pleading guilty to single family equity skimming. A mortgage loan officer was also sentenced to 21 months in prison, 3 years probation and restitution of \$5,000. The individuals assumed delinquent FHA and VA mortgages under fictitious names and collected and deposited rents into checking accounts opened under assumed names. Losses to the government exceed \$200,000.

Following a joint FBI/OIG investigation, an investor in **Minneapolis, MN**, pled guilty to single family equity skimming charges and was sentenced to 3 years probation and 6 months confinement in a community correction center. The potential loss to HUD is \$175,000.

## Homeless Programs

During this reporting period, OIG audits focused on program administration in the Supportive Housing Demonstration Program and the Permanent Housing for Handicapped Homeless Persons Program. Audits disclosed deficiencies in program administration that led to ineligible subsidies and a lack of services to some homeless individuals and families.

The Comprehensive Addiction Rehabilitation Program of **Decatur, GA** (Report No. 94-AT-251-1025), did not effectively manage its programs. An OIG audit disclosed that the organization provided only about 34 percent of its planned services to the homeless, and in effect, drew over \$557,000 in excess Supportive Housing Demonstration grant funds. The organization misclassified many of its clients as homeless, and did not monitor the transition of the homeless to permanent housing. In addition, because of its poor accounting system and lack of monitoring, the organization could not provide accurate financial and activity reports.

An audit of the Permanent Housing for Handicapped Homeless Persons Program, as administered by the Pennsylvania Department of Community Affairs, **Harrisburg, PA** (Report No. 94-PH-251-1010), revealed that the grantee did not effectively manage its program. Because the subgrantees did not ensure contract costs were reasonable or grant funds were adequately matched, over \$352,000 of program expenditures were unsupported and the subgrantees accepted unqualified residents, charged excessive rents and received ineligible subsidies. According to the grantee, it could not provide the required subgrantee monitoring and reporting to HUD.



## APPENDIX 1 - AUDIT REPORTS ISSUED

### INTERNAL REPORTS ISSUED

FUNDS PUT TO			TOTAL	TOTAL
REPORT NUMBER	ISSUE		QUESTIONED	UNSUPPORTED
	DATE	REPORT TITLE	COSTS	COSTS
<u>BETTER USE</u>				
HOUSING				
94-FO-131-0002 0	06/08/94	Audit of the Federal Housing Administration's Fiscal Year 1993 Financial Statements	0	0
94-SE-114-0003 0	04/20/94	Review of Multifamily Preservation Programs	0	0
0		5 Audit Related Memoranda	0	0
MISCELLANEOUS				
94-FO-177-0003 0	06/30/94	Audit of the Department of Housing and Urban Development's Fiscal Year 1993 Financial Statements	0	0
0		5 Audit Related Memoranda	0	0

## EXTERNAL REPORTS ISSUED

FUNDS PUT TO REPORT NUMBER BETTER USE	ISSUE DATE	REPORT TITLE	TOTAL QUESTIONED COSTS	TOTAL UNSUPPORTED COSTS
<b>HOUSING</b>				
94-AO-209-1002 0	04/29/94	Memphis Housing Authority, Lead-Based Paint Activities	0	0
94-AT-212-1015 1144542	04/15/94	Hospital Hermanos Melendez, Inc., Mortgagor Operations	12056252	3872494
94-AT-203-1017 142321	04/28/94	North Carolina Housing Finance Agency: Section 8, Hope 3, and Homeless Programs	403505	0
94-AT-201-1020 0	06/29/94	Rocky Mount Residential Management Council, Inc., Technical Assistance Grant	0	0
94-AT-201-1021 0	08/03/94	Corporation for Enterprise Development, Technical Assistance Grant	0	0
94-AT-203-1022 0	08/04/94	Housing Authority of the City of Macon, Section 8 Recertification Inspections	23924	23924
94-AT-219-1024 0	08/25/94	Other Fees Claimed by General Contractor, Meadow Terrace and Greenwood Park Apartments	706785	0
94-BO-212-1008 0	05/11/94	Cochituate Homes, Multifamily Project Operations	0	0
94-BO-214-1009 0	07/25/94	TFG Management Company, Inc., Management Agent	0	0
94-CH-201-1021 0	04/08/94	Akron Metropolitan Housing Authority, Low-Income Housing and Section 8 Voucher and Certificate Programs	0	0
94-CH-201-1026 0	06/17/94	Laurel Homes Resident Management Corporation, Technical Assistance Grant	0	0
94-CH-202-1027 0	06/24/94	Luna Pier Housing Commission, Safeguarding Monetary Assets and Inventory	0	0
94-CH-214-1030 0	07/08/94	United Church Homes, Inc., Management Agent	35044	0
94-CH-214-1031 0	07/08/94	Hartman and Tyner, Inc., Multifamily Mortgage Insurance Program	2038176	2038176
94-CH-214-1033 0	08/18/94	Quality Quaker Management, Inc., Multifamily Mortgagor Operations	15290	0
94-CH-202-1034 0	08/24/94	Alexander County Housing Authority, Comprehensive Review	7469	0
94-CH-202-1036 0	09/09/94	East Tawas Housing Commission, Safeguarding Monetary Assets and Inventory	23842	18322
94-DE-212-1002	06/10/94	Villa West Apartments - Moderate Rehabilitation Housing Program	0	0

0					
94-DE-202-1003	08/25/94	Fort Berthold Housing Authority	0		0
0					
94-DE-202-1004	09/21/94	Salt Lake County Housing Authority, Survey of Comprehensive Grant and	0		0
0					
		Comprehensive Improvement Assistance Programs			
94-FW-201-1005	06/29/94	New Orleans Housing Authority, Public Housing Operations	4769820		3308060
0					
94-FW-212-1009	05/03/94	Inverness Apartments, Multifamily Mortgagor Operations	312812		0
0					
94-FW-202-1011	08/15/94	Mercedes Housing Authority, Personnel Practices, Maintenance	91270		86374
0					
		and Drug Elimination Grant			
94-NY-214-1008	06/17/94	Westbeth Development Fund Corporation, Inc., Mortgagor Operations	0		0
0					
94-NY-212-1009	07/07/94	Carriage House Manor, Inc., Multifamily Mortgagor Operations	211459		0
0					
94-NY-201-1010	08/29/94	Schenectady Municipal Housing Authority, Technical Assistance Grant	0		0
0					
94-NY-212-1011	09/23/94	Michael Walsh Homes Development Fund Company, Inc., Multifamily	165364		113014
0					
		Project Operations			
94-NY-202-1012	09/29/94	Utica Housing Authority, Low-Rent Housing and Section 8 Programs	0		0
0					
94-PH-212-1011	06/20/94	Summertree Apartments, Multifamily Mortgagor Operations	50773		0
0					
94-PH-204-1012	07/26/94	Ida Barbour Tenant Council, Technical Assistance Grant	7957		7957
0					
94-PH-204-1013	08/11/94	Roberts Village Resident Management Corporation, Technical	2986		2986
0					
		Assistance Grant			
94-PH-212-1014	08/15/94	Neshaminy Woods Apartments, Multifamily Mortgagor Operations	137127		23426
0					
94-PH-201-1016	09/23/94	Housing Authority of Baltimore City, Public Housing Activities	954913		216426
0					
94-PH-212-1017	09/26/94	LCL Management Company, Multifamily Management Agent	1067758		115369
0					
94-PH-204-1018	09/30/94	McKeesport Housing Authority, Selected Management Operations	167975		103214
0					



FUNDS PUT TO REPORT NUMBER BETTER USE	ISSUE DATE	REPORT TITLE	TOTAL QUESTIONED COSTS	TOTAL UNSUPPORTED COSTS
94-SE-212-1006 0	04/13/94	Ya Po Ah Terrace, Multifamily Mortgagor Operations	146250	75252
94-SE-204-1007 0	07/22/94	Grandview Residents Council, Technical Assistance Grant, Public Housing Resident Management Program	0	0
94-SE-201-1008 0	09/30/94	Comprehensive Improvement Assistance and Comprehensive Grant Programs	15552	0
94-SF-214-1007 0	04/25/94	Andrade Realty, Inc., Multifamily Management Agent	0	0
0		24 Audit Related Memoranda	0	0
<b>COMMUNITY PLANNING AND DEVELOPMENT</b>				
94-AT-251-1014 0	04/11/94	Jefferson County Housing Authority, Section 8 Moderate Rehabilitation Single Room Occupancy Program	0	0
94-AT-252-1016 0	04/18/94	Martin Luther King Jr Center for Non-Violent Social Change, Inc., Indirect Cost Rate	0	0
94-AT-255-1018 0	05/18/94	Kentucky Housing Corporation, HOME Program	0	0
94-AT-243-1019 0	05/31/94	Town of Warsaw, Community Development Block Grant Program	0	0
94-AT-255-1023 0	08/08/94	HOME Programs in Birmingham, Mobile, and Montgomery, Alabama	0	0
94-AT-251-1025 0	09/08/94	CARP of GA Inc., Support Housing Demonstration and Single Family Property Disposition Homeless Initiative Programs	557328	557328
94-AT-251-1026 0	09/27/94	Puerto Rico Department of Housing, Section 8 Housing Assistance Program	2935109	2811731
94-CH-259-1023 0	05/18/94	Institution of Housing and Community Development, Single Family Property Disposition Homeless Initiative	21384	8209
94-CH-241-1024 0	05/25/94	City of Saginaw, Community Development Block Grant Program, Special Economic Development Activities	565900	565900
94-CH-256-1025 0	06/10/94	New Cities Community Development Corporation, Hope III Implementation Grant	0	0
94-CH-256-1028 0	06/30/94	Columbus Housing Partnership, Inc., Hope III Implementation Grant	0	0
94-CH-256-1029 0	06/30/94	City of Indianapolis Hope III Implementation Grant	0	0
94-CH-259-1032	07/29/94	North Star Community Development Corporation, Technical Assistance	0	0

0		Grant Program		
94-CH-255-1035	08/31/94	State of Wisconsin Home Program	0	0
0				
94-CH-255-1037	09/22/94	Chicago Department of Housing, Home Program	123013	110148
0				
94-FW-241-1007	04/06/94	Brownsville Community Development Block Grant Program	1341916	1272758
0				
94-FW-241-1008	04/01/94	City of Abilene Community Development Block Grant Program	147762	147762
0				
94-FW-256-1010	07/28/94	Tarrant County Housing Partnership, Inc., Hope III Implementation	0	0
0				
		Grant Program		
94-FW-259-1012	08/15/94	Southern Dallas Development Corporation, Technical Assistance Grant	0	0
0				
94-NY-251-1007	05/06/94	State of New York Emergency Shelter Grant Program	61654	32291
0				
94-NY-243-1013	09/30/94	City of Auburn Community Development Block Grant Program	15137	0
0				
94-NY-256-1014	09/28/94	Trenton 1992 Hope III Implementation Grant	0	0
0				
94-PH-251-1010	05/11/94	Pennsylvania Department of Community Affairs, Permanent Housing	388154	352916
0				
		for Handicapped Homeless Persons		
94-PH-259-1015	08/18/94	Urban League of Pittsburgh, Technical Assistance Grant	0	0
0				
94-SF-241-1008	07/13/94	San Bernardino County Community Development Block Grant Program	1434400	1434400
0				
		2 Audit Related Memoranda	0	0
0				

#### ADMINISTRATION

94-AO-263-1003	06/02/94	National Fair Housing Alliance, Interim Cost Audit	38140	28366
0				
94-AO-263-1004	06/15/94	Strategic Resources, Inc., Interim Cost Audit	210762	209645
0				

FUNDS PUT TO REPORT NUMBER BETTER USE	ISSUE DATE	REPORT TITLE	TOTAL QUESTIONED COSTS	TOTAL UNSUPPORTED COSTS
94-CH-262-1022 0	04/25/94	Residential Care for Developmentally Disabled, Inc., Advisory Report on Final Costs	0	0
94-NY-262-1006 0	04/06/94	New York City Partnership, Inc., Advisory Report on Final Costs	0	0
44881		1 Audit Related Memoranda	0	0
<b>MISCELLANEOUS</b>				
94-AO-272-1005 0	08/30/94	National Center for Lead-Safe Housing, Interim Cost Audit	260349	240979

TABLE A    AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANAGEMENT DECISION AT 9/30/94    APPENDIX 2

TARGET FOR REPORT MANAGEMENT NUMBER	REPORT TITLE	ISSUE DATE	REASON FOR LACK OF MANAGEMENT DECISION
DECISION			
*92TS0014 12/31/94	Multiregion Review of Controls Over the Preparation and Use of Grantee Performance Reports	07/30/92	Management decisions made on 7 of 9 recommendations. At 9/30, CPD response was under review. Based on response, 1 recommendation was closed. Additional information was requested for the remaining recommendation.
*92TS1017 The 12/31/94 The	Commonwealth Mortgage Company Nonsupervised Mortgagee Philadelphia, PA	09/11/92	No management decision has been made on the report recommendation.  mortgagee's parent company was taken over by the Resolution Trust Corporation (RTC). RTC provided requested input on October 6, 1994.  Office of General Counsel is considering whether to file a claim.
93HQ0804 12/31/94	Material Weakness Verification Reporting CDBG Program Income and Miscellaneous Revenue	03/26/93	Management decisions made on 2 of 4 recommendations. At 9/30, CPD response was under review. After review, additional information was requested.
*93HQ1001 action 11/15/94	Scranton, PA UDAG and CDBG Programs	03/31/93	Management decisions made on 12 of 42 recommendations. Proposed plan under review by OIG.
*93HQ0008 recommendations.	Multiregion Audit of CDBG Program Benefits 10/06/94 to Low and Moderate Income Persons	04/27/93	No management decisions have been made on the 6 report  At 9/30, CPD response was under review. Based on response, all recommendations were closed.
*93AT1018 12/01/94 CPD	Municipality of Aguadilla, PR CDBG Program	06/08/93	Management decisions made on 24 of 25 report recommendations. That recommendation was transferred to Headquarters in March for action.  staff is considering the matter.
*93HQ0015 for 11/30/94	Multiregion Audit of Large Troubled PHAs Report on Performance and Status	09/24/93	Management decisions made on 11 of 16 recommendations. Target dates implementing the proposed corrective actions for the remaining 5 recommendations have not been established.
*94HQ0001 recommendations.	Multiregion Review of the Shelter Plus 12/31/94 Care Program	10/14/93	No management decisions have been made on the 13 report  CPD agrees that controls need to be strengthened but does not agree

that

represent a material weakness. This position is under consideration within the OIG.

\*94AT1012 Housing Authority of the City of Atlanta 03/11/94  
recommendations. 11/30/94

No management decisions have been made on the 24 report

Because of

OIG disagreed with the proposed management decisions of 9/30.

personnel changes at the PHA, no one at the PHA has the authority to resolve audit issues.

\*94PH1008 Logan Assistance Corporation 03/25/94  
11/30/94  
HUD-Funded Property Acquisition  
and Relocation Programs

Management decisions made on 8 of 13 recommendations. Additional  
information was requested from the auditee on the remaining 5  
recommendations.

94NY1004 National Development Council 03/28/94  
recommendations. 12/31/94  
Consulting Contracts With CDBG Recipients  
CPD. and Cooperative Agreement With HUD

No management decisions have been made on the 5 report

Awaiting additional information detailing corrective actions from

TARGET FOR REPORT MANAGEMENT		ISSUE	
NUMBER	REPORT TITLE	DATE	REASON FOR LACK OF MANAGEMENT DECISION
<u>DECISION</u>			
94PH1009	Timberwoods Mutual Homes, Inc.	03/31/94	No management decisions have been made on the 14 report
recommendations.	11/30/94		
agreed	Multifamily Mortgagor Operations		OIG disagreed with the proposed management decisions. Auditee has
			to provide more information.

\* SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS.

TABLE B

**SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS  
WHERE FINAL ACTION HAS NOT BEEN COMPLETED AS OF 9/30/94**

APPENDIX 2

REPORT FINAL ACTION		ISSUE	DECISION
NUMBER	REPORT TITLE	DATE	DATE
<u>TARGET DATE</u>			
83CH1051 Note 1	Detroit Housing Department, Public Housing Agency Activities	08/26/83	11/15/84
88FW1017 10/01/95	East Baton Rouge Parish Housing Authority, Low-rent Housing and Section 8 Existing Programs	06/29/88	03/21/89
89SF1004 Note 1	Las Vegas Housing Authority, Low Income Housing Program	01/20/89	07/18/89
89PH1013 09/15/96	Community Development Block Grant Program Subrecipient Activities	07/17/89	01/12/90
90AT1008 Note 1	Community Development Block Grant Program, Use of Program Income	03/09/90	03/30/93
90PH1014 Note 1	Delaware County CDBG Program, Partnership for Economic Development and Other Selected Areas	06/12/90	11/01/90
91TS0001 Note 1	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	10/01/91
91AO0001 Note 1	Multiregion Audit of the Emergency Shelter Grants Program	12/28/90	07/05/91
91TS0006 Note 1	Multiregion Audit of Interim Financing (Floats)	01/17/91	06/07/91
91PH1005 Note 1	Pittsburgh Housing Authority, Comprehensive Improvement Assistance Program	03/21/91	09/20/91
91TS0012 Note 1	Audit of the Major Reconstruction of Obsolete Projects Program	04/29/91	10/25/91
91TS0014 Note 1	Multiregion Audit of the Approval and Monitoring of Management Agents of Multifamily Projects	04/30/91	11/06/92
91PH1014 Note 1	Urban Redevelopment Authority, Housing Development Grant, Davison Square Apartments	09/19/91	01/13/92
92KC1801 Note 1	Community Development Agency, Purchase of Land in St. Louis Place Neighborhood	10/22/91	03/12/92
92KC1002 Note 2	Department of Housing and Community Development, Section 108 Loan Guarantee	01/10/92	03/01/94
92CH1010 09/29/95	Detroit Housing Department, Section 8 Existing Housing Certificate, Voucher, and Mod Rehab Program	01/30/92	09/29/94
92PH1003 Note 1	Community Development Block Grant Program	03/04/92	06/23/92
92TS0007 12/31/95	Audit of Fiscal Year 1991 Financial Statements, Federal Housing Administration	03/27/92	09/29/92
92TS0009 06/30/95	Multiregion Audit, Special Economic Development Activities	04/29/92	04/22/94
92TS0011 09/30/95	Audit of Fiscal Year 1991 Financial Statements	06/30/92	09/30/94
92PH1009 Note 1	Community Development Block Grant Program	07/10/92	11/07/92
92TS0014	Multiregion Review of the Controls Over the Preparation and Use of Grantee Performance Reports	07/30/92	Note 3

92BO1011	New Haven Housing Authority Management Operations	08/14/92	12/10/92
Note 1			
92KC1003	Housing Authority of Kansas City, Low Rent Housing Program	08/18/92	03/16/93
Note 1			
92PH0802	Philadelphia Housing Authority, Consolidation of Unresolved Audit Recommendations	08/27/92	08/27/92
Note 1			
92SF1009	San Francisco Housing Authority, Low Income Public Housing Program	09/10/92	01/08/93
Note 1			
92TS1017	Commonwealth Mortgage Company, Nonsupervised Mortgagee	09/11/92	Note 3
92SF1012	City of Los Angeles Housing Authority	09/25/92	01/20/93
Note 1			
92PH1015	Department of Public and Assisted Housing, Management and Selected Development Operations	09/30/92	03/29/93
Note 1			
93HQ0002	Multiregion Audit of PHAs' Internal Controls Over the Handling of Cash and Other Monetary Assets	10/16/92	09/23/93
Note 1			
93CH1001	Highland Park Housing Commission, Safeguarding Monetary Assets and Inventory	10/23/92	02/11/93
Note 1			
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	10/26/93
Note 2			
93CH1003	Cuyahoga Metropolitan Housing Authority, Low Income Housing Program	11/17/92	04/05/93
12/31/98			
93CH1006	North Chicago Housing Authority, Safeguarding Monetary Assets and Inventory	12/10/92	06/02/93
Note 1			
93CH1007	Lucas Metropolitan Housing Authority, Low Income Housing Program	12/29/92	04/05/93
Note 1			
93NY1002	New York Department of Housing Preservation and Development, Limited Review of CDBG Program	01/29/93	07/06/93
06/30/95			
93HQ0006	Multiregion Limited Review of the Public Housing Management Assessment Program	02/04/93	09/24/93
Note 1			
93AO1003	District of Columbia Department of Human Services, Single Family Homeless Initiative	03/03/93	07/26/93
01/31/95			
93HQ0005	Limited Review of HUD'S Management and Control of Staff Resources	03/08/93	09/30/93
Note 1			
93PH1004	Annapolis Housing Authority, Low Income Housing Program	03/23/93	09/10/93
Note 1			
93FO0002	Audit of the Government National Mortgage Association's Fiscal Year 1992 Financial Statements	03/29/93	01/11/94
Note 2			
93HQ1001	Scranton Urban Development Action Grant and Community Development Block Grant Programs	03/31/93	Note 4
93SF1007	Guam Housing and Urban Renewal Authority, Related Aspects of Financial and Administrative Controls	03/31/93	07/26/93
Note 1			
93BO1005	Cooperative of Charlesnewtown, Inc., Section 8 Program	04/07/93	10/18/93
Note 2			
93HQ0008	Multiregion Audit of CDBG Program Benefits to Low and Moderate Income Persons	04/27/93	Note 5
93FO0003	Audit of Federal Housing Administration's Fiscal Year 1992 Financial Statements	04/30/93	03/31/94
12/31/98			
93HQ0012	Multiregion Audit of the Direct Endorsement Program	04/30/93	09/23/93
12/31/94			
93HQ0013	Multiregion Audit of Refunding of Bonds for Section 8 Assisted Projects	04/30/93	03/16/94
Note 2			

REPORT FINAL ACTION		ISSUE	DECISION
NUMBER	REPORT TITLE	DATE	DATE
TARGET DATE			
93CH1019 Note 1	Peoria Housing Authority, Low-Income Housing Program	05/04/93	06/18/93
93CH1020 Note 1	Pontiac Housing Commission, Low-Income Housing Program	05/14/93	09/28/93
93HQ1002 12/01/94	Community Realty Management, Inc., Multifamily Management Agent	05/25/93	12/17/93
93CH1021 Note 1	Aurora Housing Authority, Low-Income Housing Program	05/26/93	09/28/93
93CH1022 Note 1	The Meadows, Retirement Service Center	05/27/93	09/28/93
93PH1006 10/01/94	Newport News Community Development Block Grant Program	05/28/93	12/16/93
93HQ1004 Note 2	Professional Properties Inc., Multifamily Management Agent	06/03/93	12/08/93
93AT1018	Municipality of Aguadilla, Puerto Rico, Community Development Block Grant Program	06/08/93	Note 6
93PH1809 11/01/94	Philadelphia Housing Authority, Special Report on a Limited Review of Contracting	06/29/93	11/26/93
93FO0004 03/30/98	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94
93PH1008 Note 2	District of Columbia Housing Finance Agency	07/19/93	12/20/93
93CH1026 01/28/95	Yellowbird Limited, Multifamily Mortgagor Operations	08/05/93	02/01/94
93DE1006 12/07/94	Denver Community Development Corporation, Community Development Block Grant Program	08/10/93	12/07/93
93HQ1006 03/31/95	Retirement Housing Foundation, Inc., Multifamily Management Agent	08/17/93	03/31/94
93FW1015 11/21/94	City of San Antonio, Community Development Block Grant Program	08/27/93	12/13/93
93SF1012 01/30/95	Los Angeles Community Development Block Grant Program	09/17/93	09/30/94
93BO1009 Note 2	Lambert Park Apartments, Multifamily Project	09/22/93	03/11/94
93SF1013 01/15/95	Santa Clara County Housing Authority, Section 8 Housing Program	09/22/93	01/27/94
93HQ0015	Multiregion Audit of Large Troubled PHAs, Report on Performance and Status	09/24/93	Note 7
93SF1016 01/21/95	Maricopa County, Department of Housing and Community Development, Conventional & Section 8 Programs	09/24/93	01/21/94
93PH1010 01/03/95	Philadelphia Office of Services to the Homeless and Adults, Emergency Shelter Grant Program	09/28/93	01/26/94
93SF1017 09/15/95	Richmond Housing Authority, Comprehensive Improvement Assistance Program	09/28/93	09/26/94
93CH1031 01/28/95	Indiana Family and Social Services Administration, Section 8 Existing and Housing Voucher Programs	09/30/93	03/30/94
93HQ0017 12/31/94	Single Family Homeless Initiative	09/30/93	03/29/94



93HQ0018	Multiregion Audit of Delegated Processing Program	09/30/93	02/07/94
12/31/94			
93NY1008	New York City Housing Authority, Low-Rent Housing	09/30/93	03/29/94
03/31/95			
94HQ0001	Multiregion Review of the Shelter Plus Care Program	10/14/93	Note 3
94AT1002	City of Miami Emergency Shelter Grant Program	10/18/93	04/18/94
04/17/95			
94CH1004	Michigan State Housing Development Authority, Section 8 Existing and Housing Voucher Programs	11/10/93	04/18/94
11/09/94			
94AO1801	Richmond Redevelopment and Housing Authority, Survey of Lead Based Paint Activities	12/02/93	04/11/94
Note 2			
94AT1005	Tennessee Housing Development Agency, Section 8 Housing Programs	12/02/93	09/21/94
09/30/95			
94AT0001	Report of the Allocation and Award of Home Program Funding	12/27/93	09/01/94
06/30/95			
94CH1010	Cincinnati Community Development Block Grant Program	12/30/93	03/30/94
03/15/95			
94AT1008	Progress Point, Inc dba Bright Beginnings, Supportive Housing Demonstration Program	01/14/94	07/07/94
02/01/95			
94CH1013	Chicago Housing Authority, Maintenance Operations	01/14/94	07/28/94
03/31/99			
94PH1007	Washington Capital Associates, HUD-Approved Coinsurance Lender	02/16/94	09/30/94
03/31/95			
94FW1004	Austin Department of Planning and Development, Community Development Block Grant Program	02/24/94	08/12/94
07/31/95			
94DE0001	Office of Housing Deficiency Judgments Program	02/25/94	05/27/94
01/31/95			
94CH1016	River Rouge Housing Commission, Low Income Housing Program	03/07/94	07/15/94
07/15/95			
94AT1012	Housing Authority of the City of Atlanta, Public Housing Management Operations	03/11/94	Note 7
94KC1003	Maplewood Loop Apartments, Multifamily Mortgage Operations	03/14/94	07/13/94
06/30/95			
94FW1006	Wichita Falls Community Development Block Grant Program	03/17/94	05/25/94
05/15/95			
94PH1008	Logan Assistance Corp., HUD-Funded Property Acquisition and Relocation Programs	03/25/94	Note 7

#### Audits Excluded:

21 audits under repayment plans

57 audits under formal judicial review, investigation, or legislative solution

#### Notes:

- 1 Management did not meet target date. Management decision is over 1 year old.
- 2 Management did not meet target date. Management decision is under 1 year old.

- 3 No Management Decision. Decision expected by December 31, 1994.
- 4 No Management Decision. Decision expected by November 15, 1994.
- 5 No Management Decision. Decision expected by October 6, 1994.
- 6 No Management Decision. Decision expected by December 1, 1994.
- 7 No Management Decision. Decision expected by November 30, 1994.

TABLE C

**INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS**  
**AT 9/30/94**  
(Dollars in Thousands)

APPENDIX 2

REPORTS . . .		Number of Audit Reports	Questioned Costs	Unsupported Costs
A1. For which no management decision had been made by the commencement of the reporting period		44	\$ 51,791	\$34,336
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period		17	33,457	22,018
A3. For which additional costs were added to reports in beginning inventory		0	1,077	293
A4. For which costs were added to non-cost reports		5	357	35
B1. Which were issued during the reporting period		38	31,514	17,777
B2. Which were reopened during the reporting period		0	0	0
	Subtotals (A+B)	104	\$118,196	\$74,459
C. For which a management decision was made during the reporting period		51 <sup>1</sup>	57,065	42,361
(1) Dollar value of disallowed costs:				
• Due HUD		16 <sup>2</sup>	2,301	285
• Due Program Participants		33	20,550	11,015
(2) Dollar value of costs not disallowed		22 <sup>3</sup>	34,214	31,061
D. For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation		17	27,854	9,858
E. For which no management decision had been made by the end of the reporting period		36 (88) <sup>4</sup>	\$33,277 (\$21,355)	\$22,240 (\$14,683)

<sup>1</sup> 6 audit reports also contain recommendations that funds be put to better use.

<sup>2</sup> 3 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 17 audit reports also contain recommendations with funds agreed to by management.

<sup>4</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See Table D for an explanation.

TABLE D

**INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT  
FUNDS BE PUT TO BETTER USE AT 9/30/94**  
(Dollars in Thousands)

APPENDIX 2

REPORTS . . .		Number of Audit Reports	Dollar Value
A1. For which no management decision had been made by the commencement of the reporting period		8	\$2,627
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period		5	952
A3. For which additional costs were added to reports in beginning inventory		0	0
A4. For which costs were added to non-cost reports		1	425
B1. Which were issued during the reporting period		3	1,332
B2. Which were reopened during the reporting period		0	0
<b>Subtotals (A + B)</b>		17	\$5,336
C. For which a management decision was made during the reporting period		8 <sup>1</sup>	1,740
(1) Dollar value of recommendations that were agreed to by management		1 <sup>2</sup>	45
• Due HUD		6	1,369
• Due Program Participants			
(2) Dollar value of recommendations that were not agreed to by management		2 <sup>3</sup>	326
D. For which management decision had been made not to determine costs until completion of litigation, legislation or investigation		5	1,915
E. For which no management decision had been made by the end of the reporting period		4 (2) <sup>4</sup>	\$1,681 (\$1,242)

<sup>1</sup> 6 audit reports also contain recommendations with questioned costs.

<sup>2</sup> 0 audit report also contains recommendations with funds due program participants.

<sup>3</sup> 1 audit report also contains recommendations with funds agreed to by management.

<sup>4</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See explanation below.

**Explanation of Tables C and D**

The Inspector General (IG) Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the "report" level rather than at the individual audit "recommendation" level results in misleading reporting of cost data. Under the Act, an audit "report" does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the "report" based rather than the "recommendation" based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management's decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current "all or nothing" reporting format does not take recognition of their efforts.

The closing inventory for items with no management decision on Tables C and D (Line E) reflects figures at the report level as well as the recommendation level.

**Profile of Performance**  
**APRIL 1, 1994 THROUGH SEPTEMBER 30, 1994**

APPENDIX 3

	Audit	Investigation			Combined Total	FY 1994 Total
		OIG/Joint Cases	Monitored Cases <sup>1</sup>	Total		
Cash Recoveries	\$14,125,214	\$2,108,888		\$2,108,888	\$16,234,102	\$34,817,150
Other Recoveries		95,843		95,843	95,843	24,166,003
Court Ordered Restitution		5,031,125	\$10,949	5,042,074	5,042,074	9,356,007
PFCRA Recoveries		2,400		2,400	2,400	648,609
Total Cash Recoveries	\$14,125,214	\$7,238,256	\$10,949	\$7,249,205	\$21,374,419	\$168,987,769
Cost Efficiencies	\$868,065				\$868,065	\$7,586,331
Commitments to Recover Funds	\$24,202,006	\$173,673		\$173,673	\$24,375,679	\$70,763,094
Cost Efficiencies Sustained	\$2,269,420				\$2,269,420	\$9,300,459
Fines Levied		\$101,333	\$5,200	\$106,533	\$106,533	\$5,721,817
Indictments		454	5	459 <sup>2</sup>	459	705
Convictions		151	14	165 <sup>2</sup>	165	387
Total Years Suspended Sentences/Probation		14/349	0/12	14/361	14/361	35/753
Total Years Prison Sentences		109	10	119	119	545
Administrative Actions Against Persons/Firms Doing Business with HUD	20	59	15	74	94	330
Subpoenas Served	27			59	86	145

<sup>1</sup> Cases where HUD/OIG is monitoring the investigation but has no active participation.

<sup>2</sup> 290 indictments and 5 convictions resulted from Operation Safe Home.